Supreme Court, U.S.
FILED
DEC 31 2003
OFFICE OF THE CLERK

No. 03-965

In The
Supreme Court of the United States

LOS ANGELES NEWS SERVICE,

Petitioner,

v.

REUTERS TELEVISION INTERNATIONAL, LIMITED; VISNEWS INTERNATIONAL (USA), LIMITED; REUTERS AMERICA HOLDINGS, INC.; REUTERS AMERICA, INC.,

Respondents.

On A Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The Copyright Act grants victims of infringement the right "to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504(b). The Copyright Act provides the victim of domestic infringement compensation for his or her actual damages to discourage infringement, regardless of the profitability of the infringement to the infringer. The Ninth Circuit nonetheless held, in conflict with the plain language of the Copyright Act, the Second Circuit and its own prior precedent in this very case, that recovery for the international dissemination of works infringed in the United States is limited to the infringer's profits, if any, no matter how devastating the infringement is to the copyright holder. The Ninth Circuit even precluded recovery of the value of a license that respondents should have obtained in order to have legally disseminated the copyrighted works to their foreign subscribers.

The question presented is whether a copyright holder is entitled to recover its actual damages flowing from the unauthorized exploitation abroad of copyrighted work infringed in the United States.

STATEMENT PURSUANT TO RULE 29.6

Petitioner Los Angeles News Service states that it is not a not a corporate entity, has no corporate parents, and has no publicly-traded stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioners respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The October 7, 2003 order denying rehearing and amended opinion of the United States Court of Appeals for the Ninth Circuit that gives rise to this petition is reported at 340 F.3d 926, and is reprinted in the attached appendix ("App.") at 1 through 16. The district court's unreported order granting summary judgment in favor of respondents is reprinted at App. 17 through 34. The previous Ninth Circuit opinion in this case dealing with this same issue is reported at 149 F.3d 987, and is reprinted at App. 35 through 55. Two previous district court decisions in this case are reported at 942 F. Supp. 1275 and 942 F. Supp. 1265, respectively, and are reprinted at App. 56 through 75 and 76 through 100.

STATEMENT OF JURISDICTION

The initial judgment and opinion of the court of appeals was entered on August 21, 2003. A timely petition for rehearing was filed on September 4, 2003. In response to the petition for rehearing and rehearing en banc, the Ninth Circuit entered an amended opinion and order on October 7, 2003, and otherwise denied the petition for rehearing and rehearing en banc. App. at 1-2. Petitioners invoke this Court's jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The provisions of the Copyright Act of 1976, 17 U.S.C. § 101, *et seq.*, relevant to this petition are reprinted at App. 101 through 103.

STATEMENT OF THE CASE

Respondents in this case infringed Petitioner's copyrights to iconic video footage of the Los Angeles riots, including images of the beating of truck driver Reginald Denny, by unlawfully copying the footage in New York and distributing it via satellite to their foreign subscribers. In a ruling that upsets established copyright law in both the Ninth and Second Circuits, the Ninth Circuit ruled that Petitioner cannot recover its actual damages resulting from the infringement, even though the infringement took place entirely within the United States.

By this ruling, the Ninth Circuit has jeopardized the statutory rights of all United States copyright holders whose works are subject to domestic infringement and exploitation abroad. The Copyright Act provides for the recovery of "actual damages . . . *and* any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504(b) (emphasis added). Without the availability of actual damages, the Copyright Act can do nothing to deter infringers who do not profit directly from infringement that occurs domestically and results in the destruction of overseas markets for copyrighted works.

The opinion below creates a massive fissure between the Ninth and Second Circuits in the application of American

copyright law. The Ninth and Second Circuits are the critical copyright circuits because of the volume of media work product produced in Southern California and New York.

Furthermore, the opinion below is particularly disturbing in this age of rampant piracy, when American copyrights are under siege all over the world, and copyright holders are having great difficulty protecting the value of their work. This issue has, unfortunately, become of paramount importance to all media and technical work product produced in the United States. The recovery of full Copyright Act damages for the foreign exploitation of copyrighted works infringed in the United States is elemental. Accordingly, this issue is of exceptional importance and merits review. *See Mills Music, Inc. v. Snyder*, 469 U.S. 153, 163 (1985) (certiorari granted to resolve an important question of copyright law even in the absence of conflicting circuit decisions).

I. FACTUAL BACKGROUND[1]

Petitioner Los Angeles News Service ("LANS") is an Emmy-winning independent news organization consisting of the husband-and-wife team Bob and Marika Tur. In 1992, LANS was in the business of videotaping and photographing newsworthy events and licensing its

[1] The relevant facts are set forth extensively in *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 942 F. Supp. 1275 (C.D. Cal. 1996) (App. 56-75), and *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 942 F. Supp. 1265 (C.D. Cal. 1996) (App. 76-100), and are summarized by the Ninth Circuit in *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 149 F.3d 987 (9th Cir. 1998) (App. 35-55) and *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 340 F.3d 926 (9th Cir. 2003). App. 1-16.

footage and images to news broadcasters, print publications, documentary and feature film makers, and other consumers of such images. On Thursday, April 29, 1992, the Turs, anticipating civil disturbance in the wake of the Rodney King verdicts, were filming from their helicopter over the intersection of Florence and Normandie in south-central Los Angeles. Due to their years of experience in covering Los Angeles, they believed that that intersection might be a flashpoint if civil unrest were to occur.

While there, at approximately 6:30 p.m. Pacific Daylight Time, the Turs captured on videotape and in still photographs the images that became synonymous with the Los Angeles riots throughout the world: the images of Larry Tarvin being pulled from his white panel truck and beaten, and the horrific images of cement truck driver Reginald Denny being kicked, beaten, smashed in the head with a brick, and robbed. These images are collectively referred to herein as the "Works." The Works were broadcast live in Los Angeles on KCOP-TV (Channel 13).

Before the Turs had landed their helicopter, they were receiving requests to license the Works for rebroadcast. With years of journalistic and business experience, the Turs knew they had captured once-in-a-lifetime videotape, and they knew how to market it. They would grant the major networks restricted licenses for domestic, network-only broadcasts, then license the footage themselves to local network-owned and affiliated stations, local independents and to overseas broadcasters.

Pursuant to that plan, LANS sold NBC a restricted license to broadcast the Works on *The Today Show* on the morning of April 30, 1992. Unbeknownst to LANS, the broadcast of *The Today Show* was fed by fiber link to

Reuters' predecessor, Visnews International (USA), Ltd., a joint venture of Reuters Television International, Ltd., NBC and the BBC.[2]

Visnews illegally made a videotape copy of a portion of the Works and transmitted it to subscribers in Europe and Africa. It also transmitted copies of the videotape to the New York office of the European Broadcasting Union (the "EBU"). The EBU made a second illegal copy of the Works, which was transmitted via satellite to Reuters' London branch, which provided copies to its subscribers throughout the world. Within twenty-four hours, the initial flood of requests for the footage ceased and the international market for LANS' works was destroyed.

II. LEGAL BACKGROUND

A. Prior Proceedings in the District Court and the Ninth Circuit

This action for copyright infringement was commenced in 1995. In June 1996, Reuters moved for summary judgment, arguing among other things that it (a) was shielded from liability by the "fair use" doctrine; and (b) could not be held liable for extraterritorial damages under the Copyright Act. The District Court for the Central District of Los Angeles, the Honorable Kim McLane Wardlaw presiding, granted Reuters' motion in part and denied it in part, holding that (a) LANS had proved domestic infringement; (b) the fair use doctrine did not

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[2] Respondents Reuters Television International, Limited; Visnews International (USA), Limited; Reuters American Holdings, Inc.; and Reuters America, Inc. are referred to herein collectively as "Reuters."

shield Reuters from liability; but (c) Reuters could not be held liable under American law for copyright damages that arise in foreign territories as a result of a domestic infringement. *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 942 F. Supp. 1265 (C.D. Cal. 1996) (hereinafter "*Reuters I*," App. 76 to 100.)

The matter proceeded to a bench trial before Judge Wardlaw on the issue of statutory damages. After issuing extensive findings of fact, Judge Wardlaw found that (a) Reuters had infringed LANS' copyrights by making unlicenced copies of the Works; (b) Reuters had contributed to a second infringement of the copyrights by the EBU, which had made unlicenced copies of the Works from Reuters' transmission; and (c) LANS was entitled to an award of statutory damages for the domestic infringements in the amount of $60,000. *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 942 F. Supp. 1275 (C.D. Cal. 1996) (hereinafter "*Reuters II*," App. 56 to 75).

Both the summary judgment and the trial verdict were appealed to the Ninth Circuit, which resulted in *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 149 F.3d 987, 997 (9th Cir. 1998), *cert. denied*, 525 U.S. 1141 (1999) (hereinafter "*Reuters III*," App. 35-55). The Ninth Court (a) reversed the summary judgment as to extraterritorial damages, holding that LANS was "entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants" (App. at 43); (b) affirmed the summary judgment on fair use, holding that Reuters was not shielded from liability (App. at 54); and (c) remanded the case "for a trial on *actual damages*. . . ." *Id.* (emphasis added).

B. Proceedings on Remand in the District Court After *Reuters III*

On remand, the case was assigned to the Honorable Consuelo B. Marshall. Reuters again moved for summary judgment, arguing that *Reuters III*, by relying on the equitable rationale set forth by the Second Circuit in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), limited recovery of extraterritorial "damages" to those monies actually received by a defendant as profits and which could therefore be subjected to a constructive trust in LANS' favor. Reuters argued that it had no profits or other income directly allocable to its infringements because its subscribers pay annual subscription fees unrelated to their receipt or usage of any particular footage, including the Works. The District Court agreed and, remarkably, entered summary judgment in favor of Reuters on or about November 20, 2000 (App. 17-34), effectively reversing the Ninth Circuit *Reuters III* remand "for a trial on actual damages. . . ." App. at 54.

C. Proceedings in the Court of Appeals

LANS again appealed to the Ninth Circuit, and in a continuation of remarkable judicature, a two-judge majority of a new panel affirmed the District Court's ruling and reversed *Reuters III* in *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 340 F.3d 926 (9th Cir. 2003) (hereinafter *Reuters IV*, App. 1-16). The *Reuters IV* majority held that "the Copyright Act does *not* provide LANS recovery for actual damages resulting from [defendants'] infringement." App. at 13 (emphasis added).

In his dissent, Judge Silverman notes:

> The majority now holds that when we said "actual damages," we didn't mean actual damages, but only whatever profits the infringer might have realized.
>
> . . . .
>
> Neither the Copyright Act, nor our prior decision in *this* case, nor any *other* case, limits the calculation of actual damages to only the infringer's ill-gotten profits.

App. at 14-15 (Silverman, J., dissenting).

This petition for a writ of certiorari follows.

REASONS FOR GRANTING THE WRIT

I. CERTIORARI SHOULD BE GRANTED BECAUSE *REUTERS IV* ERRONEOUSLY APPLIES THE COPYRIGHT ACT AND CREATES A CONFLICT BETWEEN THE NINTH AND SECOND CIRCUITS BY SHIELDING DOMESTIC INFRINGERS WHO EXPLOIT COPYRIGHTED WORKS OVERSEAS FROM AN AWARD OF ACTUAL DAMAGES

A. The Copyright Act Provides That Victims of Infringement Can Recover Both Their Actual Damages and the Profits of the Infringer Resulting From Any Domestic Infringement

The Copyright Act provides copyright holders with a range of remedies to ensure that they are made whole and to prevent infringers from profiting from theft:

> The copyright owner is entitled to recover the *actual damages* suffered by him or her as a result of the infringement, *and any profits* of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.

17 U.S.C. § 504(b) (emphasis added). The Copyright Act, therefore, provides the victims of domestic infringement recovery of their actual damages in addition to the profits of the infringer, if any, so long as the two do not overlap.[3] The Copyright Act does not provide recovery, however, for infringements that do not occur within the United States. *See Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988).

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[3] While the Act does not define "actual damages," the courts have construed it to mean "the extent to which the market value of the copyrighted work, at the time of infringement, has been injured or destroyed by such infringement. 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.02[A], at 14-9 (2003). Actual damages are most "often measured by the profits lost as a result of the infringement." *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1170 (1st Cir. 1994) (citations omitted). An additional measure of actual damages is the "value of use" measure (also known as a "reasonable royalty" measure) that is meant "to compensate a plaintiff for the defendant's failure to pay for the reasonable value of what the defendant took." *Davis v. The Gap, Inc.*, 246 F.3d 152, 161 (2d Cir. 2001); *see also Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992) ("a reasonable license fee for the [infringing] use . . . best approximates the market injury sustained by" the copyright owner).

B. Prior to *Reuters IV*, Copyright Law Permitted the Recovery of Actual Damages Resulting from the Foreign Exploitation of Domestic Infringements

Prior to *Reuters IV*, there was no question that victims of copyright infringement were entitled to the Copyright Act's full range of remedies – including actual damages – resulting from the exploitation abroad of domestic acts of infringement.

For example, in *Famous Music Corp. v. Seeco Records, Inc.*, 201 F. Supp. 560 (S.D.N.Y. 1961), the owners of copyrighted musical compositions sought recovery of compulsory license fees for, among other things, records embodying their musical compositions that had been manufactured but not sold, including records manufactured abroad from master tapes produced in the United States. *Famous Music*, 201 F. Supp. at 561-564.

The court granted the plaintiffs their requested relief. Because "the infringement of a copyright is a tort and all persons concerned therein are jointly and severally liable," *id.* at 568, the defendant's domestic "act . . . in preparing the [master] tape was a part of the manufacture" of the records abroad, and accordingly constituted "an infringement for which [defendant] should respond." *Id.* at 568-69. The fact that "a copyright has no extra-territorial effect" did not relieve defendant of liability, "since plaintiffs seek to hold defendant for what it did here rather than what it did abroad." *Id.* at 569. Furthermore, the defendant was required to pay damages with respect to records manufactured but not sold, and on which it had therefore earned no profit. *Id.* at 566.

Later, in *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988), the Second Circuit also confirmed the availability of actual damages arising from the foreign exploitation of domestic infringements. In *Update Art*, the defendant was the publisher of the largest circulating daily newspaper in Israel, with an international weekend edition distributed in Israel and the United States. *Id.* at 68. One such weekend edition contained an unauthorized reproduction of a poster produced by the plaintiff under an exclusive license agreement. *Id.* The Second Circuit held that the availability of actual damages flowing from the newspapers sold in Israel hinged on the situs of the infringement:

> As the applicability of American copyright laws over the Israeli newspapers depends on the occurrence of a predicate act in the United States, the geographic location of the illegal reproduction is crucial. If the illegal reproduction of the poster occurred in the United States and then was exported to Israel, the magistrate properly could include damages accruing from the Israeli newspapers. If, as appellants assert, this predicate act occurred in Israel, American copyright laws would have no application to the Israeli newspapers. Since a large portion of the damage award accrued from the Israeli newspapers, our determination on this issue affects substantially the final judgment.

Id. at 73.

After determining that there was no evidence in the record to support a finding that the reproduction occurred outside of the United States, the Second Circuit held that the reproduction of the poster in the United States permitted the plaintiff to recover all of its actual damages, even

though "a large portion of the damage award accrued from the Israeli newspapers," *id.* at 73:

> [T]he magistrate granted summary judgment to Update on the issue of damages with respect to its claim of copyright infringement. She accepted Update's calculation of appellants' gross income of $475,406 from the infringement based on documentary evidence. *She also accepted Update's calculation of its lost profits of $380,686.* The magistrate awarded Update damages of $475,406 plus interest by adding to Update's lost profits of $380,686 that portion of appellants' income from the infringement that was not duplicative of Update's lost profits ($94,720).

Id. at 70 (emphasis added). In other words, *Update Art* awarded the plaintiff actual damages – its lost profits plus the non-overlapping profits of the infringer – resulting from the unauthorized inclusion of its copyrighted poster in newspapers printed and distributed in Israel.

The Ninth Circuit's first look at this issue was in a previous decision in this same case which, unsurprisingly, followed *Update Art*. The *Reuters III* panel characterized the issue before it as "whether, under the Copyright Act, a plaintiff may recover *actual damages* accruing from the unauthorized exploitation abroad of copyrighted work infringed in the United States." App. at 36 (emphasis added). The panel unanimously held that under the facts of this case, the Second Circuit's rule should apply:

> LANS urges us to adopt the Second Circuit's rule because the unauthorized copying of its works in the United States enabled further exploitation abroad. While the extraterritorial *damages* resulted from Reuters's overseas dissemination of the works received by satellite transmissions

> from Visnews and EBU, those transmissions were made possible by the infringing acts of copying in New York. The satellite transmissions, thus, were merely a means of shipping the unlicensed footage abroad for further dissemination.

App. at 41 (emphasis added).

The *Reuters III* panel was unequivocal: "We therefore hold that LANS is entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants." App. at 43. "We REVERSE the ruling barring the claim for extraterritorial damages and *REMAND for a trial on actual damages. . . .*" App. at 54 (emphasis added).

Commentators recognized that *Reuters III* affirmed the longstanding Second Circuit rule. For example, one commentator wrote:

> In a decision last July, *Los Angeles News Service v. Reuters Television International, Ltd.*, the [Ninth Circuit] finally *affirmed the viability of a long-established Second Circuit doctrine that allows the victims of international copyright infringement to recover the full scope of their damages when foreign acts of infringement are rooted in an infringing domestic act.* In doing so, the Ninth Circuit not only gave copyright owners a powerful weapon against international pirates but also implicitly accepted the fluid nature of today's global economy and the need for a flexible, pragmatic approach to address international copyright infringement.

Yakub Hazzard & Mark Mayer, Territorial Imperative, 22 Los Angeles Lawyer 45 (1999) (emphasis added); *see also* Paul Goldstein, 3 *Copyright* § 16.2, at 16:6-1 (2001 Supp.)

("If acts of infringement occurred in the United States, the United States copyright owner can in certain circumstances recover *damages or profits* arising from subsequent uses of the copyrighted work outside the United States.") (emphasis added); William Patry, *Choice of Law and International Copyright*, 48 Am. J. Comp. L. 383, 462 n.362 (2000) (*Reuters III* "[p]ermitt[ed] the plaintiff copyright [owner] to collect *damages* for this unauthorized, infringing overseas exhibition") (emphasis added); Paul Edward Geller, 1 *International Copyright Law & Practice* § 3[1][b][i], INT-48 (2003) ("the [*Reuters III*] court held that, if unauthorized copies are made in the United States, then *compensatory relief* may be awarded under U.S. law for resulting exploitation abroad") (emphasis added); 5 No. 11 *Andrews Intellectual Property Litigation Reporter* 5 (January 13, 1999) ("the Ninth Circuit ruled that extraterritorial *damages* are recoverable from an infringer when the act of infringement – the 'predicate act' – occurs in the United States.") (emphasis added).

C. *Reuters IV* Erroneously Reversed *Reuters III*, Upset Established Copyright Law, and Created a Conflict With the Second Circuit

As noted in the Statement of Facts, above, after the *Reuters III* panel remanded this case for a trial on "actual damages," the district court granted summary judgment for respondents, effectively reversing *Reuters III*. The district court ruled that *Reuters III* only permitted LANS to recover *respondents' profits*, and that there was no proof of profits directly allocable to the infringements because respondents' subscribers pay annual subscription fees

unrelated to their receipt or usage of any particular footage, including the infringed Works. App. at 28-33.

LANS appealed, and a two-judge majority of a new panel reversed *Reuters III*. App. at 1-16.[4] While *Reuters III* remanded the case "for a trial on actual damages" (App. at 54), *Reuters IV* holds "that the Copyright Act does *not provide LANS recovery for actual damages* resulting from Reuters's and Visnews's infringement." App. at 13 (emphasis added).

As already noted, this holding is entirely at odds with *Update Art* and *Reuters III*, as pointed out in Judge Silverman's dissent in *Reuters IV*:

> In our previous decision . . . we decided the very issue the majority now re-decides the other way.
>
> . . . .
>
> The majority now holds that when we said "actual damages," we didn't mean actual damages, but only whatever profits the infringer might have realized. This new holding is not only at odds with our previous holding, but it fails to

[4] The effective reversal of *Reuters III* is extremely prejudicial to LANS. The Turs believed and relied on the plain language of *Reuters III*, elected "actual damages" and waived the $60,000 statutory damage award they had previously obtained. In fact, the Ninth Circuit required LANS to elect between actual and statutory damages in order to pursue its appeal. App at 6. Then the *Reuters IV* court decided that "actual damages" did not mean "actual damages." The result is devastating. LANS has now lost its statutory damage award and anticipates Reuters will argue that it is the prevailing party entitled to attorneys' fees. This blatantly unfair and prejudicial result represents such a departure "from the accepted and usual course of judicial proceedings . . . as to call for an exercise of this Court's power." Supreme Court Rule 10(a).

> take into account of the fact that the Copyright Act itself specifically uses the terms "actual damages" and "profits" separately and distinctly.
>
> . . . .
>
> [A]ctual damages *can* be recovered when the infringement occurs wholly within the United States. *Reuters III* at 992, 997. That's exactly what happened here, and why we reversed for a trial at which LANS would be allowed to prove its actual damages, if any. This is not a novel concept. *See Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 70 n.4 (2d Cir. 1988); *Famous Music Corp. v. Seeco Records, Inc.*, 201 F. Supp. 560 (S.D.N.Y. 1961).
>
> . . . .
>
> Neither the Copyright Act, nor our prior decision in *this* case, nor any *other* case, limits the calculation of actual damages to only the infringer's ill-gotten profits.

App. at 14-15 (Silverman, J., dissenting).

In fact, *Reuters IV* appears to have completely misapprehended *Update Art*, purporting to distinguish it on the basis that "the amount of damages awarded by the district court was based on defendants' profits." App. at 10. That is simply incorrect. In fact, the *Update Art* court awarded an amount calculated by "adding to Update's lost profits . . . that portion of appellants' income from the infringement that was not duplicative of Update's lost profits." *Update Art*, 843 F.2d at 70. *Update Art* clearly supports LANS' position that it is entitled to its actual damages in this case.

Additionally, with respect to *Famous Music*, the *Reuters IV* majority inexplicably concedes that "the *Famous Music* court did award relief equivalent to what the current Act would term actual damages" (App. at 11), but declines to follow it.

D. *Reuters IV*'s Reliance on *Sheldon v. Metro-Goldwyn Pictures Corp.* and *Subafilms, Ltd. v. MGM-Pathe Communications Co.* Is Erroneous

The *Reuters IV* majority cites to only two cases – one from the Second Circuit and one from the Ninth – to support its unprecedented theory that LANS may only recover Reuter's profits. However, both *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), and *SubaFilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994), are inapposite.

First, *Sheldon*, which predates *Update Art* in the Second Circuit by nearly fifty years, cannot be read to limit recovery of "extraterritorial" copyright damages to an infringer's profits or other unjust enrichment. *Sheldon* was an appeal from an accounting. The issue before the court was whether the plaintiff could recover the profits, discovered during the accounting, from the defendant's overseas exploitation of a motion picture that infringed plaintiff's stage play. *Sheldon*, 106 F.2d at 52. There was simply no claim in *Sheldon* that the infringement had caused the plaintiff *damages*, such as lost sales or license fees, and the court does not discuss that issue.

While *Sheldon* confirms that a defendant's profits from the foreign exploitation of a domestically-infringed work are recoverable, it does not hold or even suggest that

such profits represent a copyright holder's only remedy in such a case. As Judge Silverman correctly points out, "[i]n *Sheldon*, the question of what constitutes 'actual damages' wasn't an issue or even discussed. *Sheldon* was an appeal from an accounting. . . . 'Actual damages' had nothing to do with the case." App. at 15 (Silverman, J., dissenting).

Second, *Subafilms* "doesn't shed light on this problem, either. It merely holds that there is no recovery under American copyright law for infringements that do not occur within the United States." App. at 15 (Silverman, J., dissenting). In this case, Reuter's infringement of the Works was completed entirely in the United States, and "as we previously held in *Reuters III*, 'actual damages' *can* be recovered when the infringement occurs wholly within the United States." App. at 15 (Silverman, J., dissenting).

There is no question that *Reuters IV* creates a critical conflict between the Ninth and Second Circuits on this exceedingly important issue. This case accordingly merits this Court's review.

E. *Reuters IV* Also Inexplicably Denies LANS a Reasonable License Fee for Respondents' Unlawful Infringement of Its Works, in Conflict With the Law of Other Circuits

In addition to foreclosing the recovery of LANS' lost profits, *Reuters IV* also inexplicably prevents LANS from even recovering a reasonable royalty for respondents' unauthorized use of its footage. This result also conflicts with established law in the Second and Seventh Circuits, which supports this type of recovery. *See Davis v. The Gap, Inc.*, 246 F.3d 152, 161 (2d Cir. 2001); *Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992); *Deltak v. Advanced Systems,*

Inc., 767 F.2d 357, 360-61 (7th Cir. 1985). At a minimum, LANS should be entitled to recover what the Second Circuit describes as "the reasonable value of what [respondents'] took." *Davis*, 246 F.3d at 161. This conflict also merits review and reversal of *Reuters IV* by this Court.

II. CERTIORARI SHOULD BE GRANTED BECAUSE THE CONFLICT REGARDING THE AVAILABILITY OF EXTRATERRITORIAL DAMAGES ARISING FROM DOMESTIC INFRINGEMENTS INVOLVES AN ISSUE OF EXTRAORDINARY IMPORTANCE

It is undeniable that the copyright law of the Ninth and Second Circuits is extraordinarily important. The Ninth Circuit of course includes Southern California, which is the home of a large portion of this country's film and music industries. The Second Circuit is colloquially referred to as the "copyright circuit" due to its unique position in the world of media and the amount of copyright litigation decided there. A conflict on an issue as important as this effectively throws United States copyright law into a state of turmoil.

In the Second Circuit, consistent with the well-settled jurisdictional scope of the Copyright Act, copyright holders are allowed to recover *all* damages flowing from domestic acts of infringement, including damages resulting from the destruction of overseas markets. *See Update Art*, 843 F.2d at 70. However, a similarly situated copyright holder in the Ninth Circuit is now limited to recovering the infringer's profits. In other words, *Reuters IV* provides for no recovery if the infringer disseminates the work abroad for free, is too inept to profit from the infringement, or, like respondents, provides the work to subscribers for a subscription fee that cannot be traced directly to the infringing

works. Indeed, in the Ninth Circuit, a copyright owner cannot even recover the reasonable value of the infringer's unlawful use.

Consider the following acts that would wreak massive damage on a copyright holder, while the infringer would not have to pay any meaningful damages under the *Reuters IV* interpretation of Section 504(b) of the Copyright Act because such damages are limited to the infringer's profits:

- Any individual or business can cripple the commercial prospects of a film studio or record label in foreign markets by making a single digital copy of a new film or compact disc and transmitting that digital copy for a modest fee (e.g., several thousand dollars) from the United States to individuals or entities abroad who copy and distribute it.

- Any individual or business can make a single infringing copy of a television program in the United States for a modest fee and send it over the Internet to foreign television stations for broadcast.

- Any individual or business can, for a modest fee, unlawfully copy all variety of print media, including books and magazine articles in the United States and send them to publishers abroad for publication.

The *Reuters IV* decision eviscerates the Copyright Act's deterrent effects in these situations. In this age of rampant piracy, the possibility of these scenarios is unlimited and cannot be tolerated. The Ninth Circuit's misinterpretation of the Copyright Act and its conflict with the Second Circuit must be addressed as soon as possible. The Internet already makes this type of activity easy and

devastating to the businesses of United States copyright holders. The problem can only become more acute as technology develops.

Moreover, the availability of actual damages in this case is even more appropriate than the examples given above because respondents not only destroyed the market for LANS' Works, but also benefitted directly from the infringement because its subscribers used the Works throughout the world. The fact that respondents did not profit from the use in a way recognized by the law should not shield them from liability for the actual damage suffered by LANS.

CONCLUSION

In light of *Reuters IV*'s misinterpretation of the Copyright Act, the serious conflict between the Ninth and Second Circuits and the extraordinary importance of this copyright issue, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Los Angeles News Service, *Plaintiff-Appellant*, v. Reuters Television International Limited; Visnews International (USA) Limited; Reuters America Holdings, Inc.; Reuters America Inc., *Defendants-Appellees.*	No. 02-56956 D.C. No. CV-95-01073-CBM ORDER AND AMENDED OPINION

Appeal from the United States District Court
for the Central District of California
Consuelo B. Marshall, Chief Judge, Presiding

Submitted April 22, 2003*
Pasadena, California

Filed August 21, 2003
Amended October 7, 2003

Before: Diarmuid F. O'Scannlain, Barry G. Silverman, Circuit Judges, and Edward C. Reed, Jr.,**
District Judge.

Opinion by Judge O'Scannlain;
Dissent by Judge Silverman

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* This panel unanimously finds this case suitable for decision without oral argument. *See* Fed. R. App. P. 34(a).

** The Honorable Edward C. Reed, Jr., Senior United States District Judge for the District of Nevada, sitting by designation.

COUNSEL

George T. Caplan, Kaye Scholer LLP, Los Angeles, California, argued the cause and filed briefs for the appellant.

Robert C. Vanderet, O'Melveny & Myers LLP, Los Angeles, California, argued the cause for the appellees. Paul B. Salvaty and Vanessa Koury were on the brief.

ORDER

The opinion filed August 21, 2003, is hereby ordered amended as follows:

Slip Op. at 11878: In the first sentence of the first paragraph, delete the words "for extraterritorial infringement".

With this amendment, the panel has voted to deny the petition for rehearing and the petition for rehearing en banc. Judge Silverman voted to grant the petition for rehearing and to deny the petition for rehearing en banc. Judge Reed voted to deny the petition for rehearing and suggested that the petition for rehearing en banc be denied. Judge O'Scannlain voted to deny the petition for rehearing and to deny the petition for rehearing en banc.

The full court has been advised of the petition for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

The petition for rehearing and the petition for rehearing en banc are denied.

OPINION

O'SCANNLAIN, Circuit Judge:

We must decide whether a news organization may recover actual damages under the Copyright Act for acts of infringement that mostly occurred outside the United States.

I

The copyrighted works at issue here ("the works") are two video recordings, "The Beating of Reginald Denny" and "Beating of Man in White Panel Truck," which depict the infamous events at Florence Ave. and Normandie Blvd. during the 1992 Los Angeles riots. Los Angeles News Service ("LANS"), an independent news organization which produces video and audio tape recordings of newsworthy events and licenses them for profit, produced the works (and two other videotapes not at issue here) while filming the riots from its helicopter. LANS copyrighted the works and sold a license to rebroadcast them to, among others, the National Broadcasting Company ("NBC") network, which used them on the *Today Show*.

Visnews International (USA), Ltd. ("Visnews") is a joint venture among NBC, Reuters Television Ltd., and the British Broadcasting Company ("BBC"). Pursuant to a news supply agreement between NBC and Visnews, NBC transmitted the *Today Show* broadcast by fiber link to Visnews in New York; Visnews made a videotape copy of the works, which it then transmitted via satellite to its subscribers in Europe and Africa and via fiber link to the New York office of the European Broadcast Union ("EBU"), a joint venture of Visnews and Reuters. The EBU subsequently made another videotape copy of the works, and

transmitted it to Reuters in London, which in turn distributed the works via video "feed" to its own subscribers.

LANS sued Reuters Television International, Inc., Reuters America Holdings, Inc., Reuters America, Inc. (collectively, "Reuters"), and Visnews for copyright infringement and certain other claims not relevant here. The district court subsequently granted Reuters and Visnews partial summary judgment on the issue of extraterritorial infringement, holding that no liability could arise under the Copyright Act for acts of infringement that occurred outside the United States. *L.A. News Serv. v. Reuters Television Int'l, Ltd.* (*Reuters I*), 942 F. Supp. 1265, 1268-69 (C.D. Cal. 1996). However, the district court held that Visnews's act of copying the works in New York was a domestic act of infringement[1] and rejected a claimed defense of fair use. *Id.* at 1269, 1271-74.

The district court further concluded that LANS had failed to prove any actual damages arising domestically and that damages arising extraterritorially were unavailable under the Act, which meant that LANS was limited to statutory damages. *Id.* at 1274-75 & n.7.[2] After a bench trial on the issue of statutory damages, the district court awarded LANS a total of $60,000. *L.A. News Serv. v. Reuters Television Int'l, Ltd.* (*Reuters II*), 942 F. Supp. 1275, 1283-84 (C.D. Cal. 1996).

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[1] Visnews's transmission of the works to the EBU New York office was not infringement, however. *Id.* at 1270-71.

[2] The Copyright Act provides that the owner of an infringed copyright may elect "at any time before final judgment is rendered" to receive a fixed sum of statutory damages instead of the usual remedy, "actual damages and [the infringer's] profits." 17 U.S.C. § 504(c)(1).

LANS appealed the district court's ruling on actual damages, and Reuters and Visnews cross-appealed the fair use ruling and the statutory damages calculation. We subsequently reversed the district court's actual damages ruling, disagreeing with its interpretation of the Copyright Act's extraterritorial application. *L.A. News Serv. v. Reuters Television Int'l, Ltd.* (*Reuters III*), 149 F.3d 987, 992 (9th Cir. 1998). We concluded that although the district court was correct to hold that the Copyright Act does not apply extraterritorially, an exception may apply where an act of infringement is completed entirely within the United States and that such infringing act enabled further exploitation abroad. *Id.* at 991-92. Relying on *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940), which held that profits from overseas infringement can be recovered on the theory that the infringer holds them in a constructive trust for the copyright owner, we reversed the grant of summary judgment. *Reuters III* at 991-92. We held that "LANS [was] entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants." *Id.* at 992.

Turning to the other issues, we affirmed the fair use ruling and the statutory damages calculation. *Id.* at 994-96. However, we vacated the award of statutory damages so that LANS could make a new election on remand. *Id.* at 995 & n.8. After the Supreme Court denied certiorari, *Reuters Television Int'l, Ltd. v. L.A. News Serv.*, 525 U.S. 1141 (1999), the case returned to the district court, where Reuters and Visnews moved for summary adjudication of the claim for actual damages. They asserted that the *Reuters III* decision permitted LANS to recover only Defendants' profits attributable to extraterritorial infringement

– not actual damages for injuries the infringements caused LANS overseas. Reuters and Visnews further asserted that no factual dispute remained as to the amount of such profits.

After a hearing, the district court agreed with Reuters and Visnews on both points and granted the motion. The court concluded that *Reuters III* had held only that LANS could recover any profits or unjust enrichment from domestic infringers, on the theory that the infringers held such profits in a constructive trust for LANS. "To permit [LANS] to recover damages other than Defendants' profits or unjust enrichment," the court stated, "would . . . effectively permit [LANS] to recover damages for extraterritorial acts of infringement."

Having determined that LANS could recover only Defendants' profits, if any, the district court concluded that Reuters and Visnews had reaped no such profits from their infringement. The court held that LANS's "speculative" testimony about the competitive advantage that exclusive footage gives a subscription broadcaster was insufficient to create a factual dispute. It accordingly granted the motion for summary adjudication. In its order, the district court stated that LANS could elect to take the $60,000 in statutory damages awarded in *Reuters II* and affirmed in *Reuters III*. In its haste, LANS timely appealed to this court, but failed to make the required election as to statutory damages. Because there was no "final decision," we dismissed for lack of jurisdiction. LANS subsequently cured the jurisdictional defect by making such election, and re-filed its appeal with this court.

II

LANS claims that the district court erred by disallowing recovery for actual damages. LANS, however, does not challenge the court's further conclusion that LANS had failed to show that Reuters and Visnews had earned any profits from the overseas infringement. Summary adjudication was therefore appropriate if the district court correctly concluded that LANS could not recover actual damages for overseas effects of Defendants' infringement.

A

Both parties engage in detailed exegesis of our opinion in *Reuters III*. On LANS's reading, the *Reuters III* court's use of the term "damages" is dispositive. The statute uses "actual damages" and "profits" separately and distinctly, and provides that an infringer may recover both (in the ordinary case). LANS asserts therefore that the *Reuters III* court should be read as having meant what it said: "damages" means actual damages.

But LANS's interpretation does not fit with the context in which the *Reuters III* court discussed the recoverability of "damages." There, we relied on Judge Learned Hand's opinion in *Sheldon* and discussed damages entirely in the context of that case, which dealt exclusively with the recovery of the defendants' profits.

The *Sheldon* court had previously affirmed the defendants' liability for infringing the plaintiffs' copyright by incorporating their play into a movie. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 54-56 (2d Cir. 1936). After a remand, the defendants appealed the district court's decision to award the plaintiffs all the defendants' profits from exhibiting the motion picture. *Sheldon,* 106

F.2d at 48. The Second Circuit, inter alia, determined that the profits traceable to overseas exhibition of the infringing movie should be included. Although "[a]t first blush it [seemed] that [the overseas profits] should be excluded" because the overseas exhibition of the infringing movie was not tortious under American copyright law, the court nonetheless concluded that the plaintiffs could recover the overseas profits under a different theory, based on one defendant's having made the negatives in the U.S. *Id.* at 52. The court elaborated:

> The negatives were "records" from which the work could be "reproduced," and it was a tort to make them in this country. The plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation, whether in the form of money remitted to the United States, or of increase in the value of shares of foreign companies held by the defendants. . . . [A]s soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust, whatever their form.

Id. The *Sheldon* court relied exclusively on this rationale in holding that the plaintiffs could recover the defendants' profits from overseas exhibition.[3]

As *Sheldon* considered only an award of profits, it is counterintuitive that a court applying Sheldon's rationale,

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[3] Before considering what could be included and excluded in the tally of the defendants' profits, the *Sheldon* court specified that the plaintiffs would take only one-fifth of the net profits. *Id.* at 51.

but using the word "damages" as the *Reuters III* court did, was referring consciously to "actual damages" as opposed to "profits." Indeed our prior holding in *Reuters III,* based on the *Sheldon* constructive trust theory, demonstrates that we did not use the term "damages" in that formal sense. Rather, we used "damages" as a shorthand either for both the forms of relief that 17 U.S.C. § 504(b) makes available, *i.e.,* actual damages and defendants' profits, or only the recovery of defendants' profits. Understanding which applies requires closer analysis of *Sheldon* and its progeny.

B

Of course, *Sheldon* did not explicitly deal with the issue of actual damages. But as LANS points out, there is some support in the Second Circuit's post-*Sheldon* case law for the recovery of extraterritorial actual damages once an act of domestic infringement is proven.

The most direct support for such position comes from *Update Art, Inc. v. Modiin Publ'g, Ltd.,* 843 F.2d 67 (2d Cir. 1988), in which the Second Circuit considered an Israeli newspaper's unauthorized reproduction of a poster copyrighted in the United States. *Id.* at 68-69. *Update Art* held, albeit without much discussion, that the defendants had failed to make any showing that the initial copying of the poster had occurred abroad; thus, in the case's procedural context,[4] the court concluded that the "predicate act"

[4] The defendants had consistently failed to respond adequately to discovery requests, and the magistrate judge accordingly entered summary judgment against them on the issue of damages. *Id.* at 70. The circuit court affirmed that sanction. *Id.* at 72.

of domestic infringement had occurred and that Update Art had stated a viable copyright claim. *Id.* at 73. The court also affirmed the award of "[d]amages accruing from the illegal infringement in the Israeli newspapers." *Id.*

Update Art, however, is distinguishable from LANS's claim in a couple of important respects. First, several issues of the newspaper in which the infringing reproduction appeared were circulated in the United States. *Id.* at 73 & n.6. Second, and more importantly, the amount of damages awarded by the district court was based on defendants' profits. *Id.* at 70 & n.4. Finally, the panel did not even discuss the distinction between damages and profits, much less cite *Sheldon.*[5] Rather, it merely concluded that the damages award could stand despite the extraterritoriality issue, which the magistrate judge had not considered in calculating the amount. *Id.* at 70.

LANS also relies on a district court case, *Famous Music Corp. v. Seeco Records, Inc.,* 201 F. Supp. 560 (S.D.N.Y. 1961). There, Famous Music sued Seeco for making infringing tape recordings of its copyrighted musical work, which Seeco then exported to foreign countries, where records were manufactured from the tapes. *Id.* at 564. Applying the Copyright Act of 1909, which was superseded in 1976 by the present Act, the *Famous Music* court held Seeco liable "by reason of its joint tort in manufacture of the tapes sent abroad," and awarded "such royalties as may be found in favor of plaintiffs by reason thereof." *Id.* at 570.

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[5] The court did however cite to one of *Sheldon's* offspring, *Robert Stigwood Group Ltd. v. O'Reilly,* 530 F.2d 1096 (2d Cir. 1976).

LANS is correct that the *Famous Music* court did award relief equivalent to what the current Act would term actual damages.[6] However, *Famous Music*'s only analysis of the issue of extraterritoriality came in a brief statement: "A holding . . . that a copyright has no extra-territorial effect, does not solve this problem of manufacture since plaintiffs seek to hold defendant for what it did here rather than what it did abroad." *Id.* at 569. Moreover, it is incorrect to characterize this case as an application of the *Sheldon* rationale, as the court never mentioned *Sheldon*.

C

On the whole, we conclude that *Reuters III* adhered very closely to our decision in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994) (en banc). *Subafilms* reaffirmed that the copyright laws have no application beyond the U.S. border, *id.* at 1095-98, and expressly took no position on the merits of the *Update Art* court's apparent willingness to award damages, *id.* at 1094; *see id.* at 1099.[7] LANS's appeal thus presents the

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[6] Reuters and Visnews argue that *Famous Music* was consistent with the constructive trust theory because a constructive trust attached to the infringing master tapes and in turn to any records made overseas from those tapes, meaning that the remedy the district court awarded was simply the value of that property held by defendants in constructive trust for plaintiff. This argument, however, stretches the term "profits" beyond reason in order to include records never sold and still in the defendants' possession.

[7] *Subafilms* also suggested that federal question jurisdiction under the copyright laws may not be coextensive with legislative jurisdiction under those laws, *i.e.*, the reach Congress has chosen to give to American intellectual property statutes. *See id.* at 1091 n.5 (analogizing to

(Continued on following page)

precise question that *Subafilms* reserved, *Reuters III,* 149 F.3d at 991, and as the prior panel recognized, such question should be resolved in light of the principles the en banc court laid down.

The import of such principles counsel a narrow application of the adoption in *Reuters III* of the *Sheldon* exception to the general rule. In particular, the *Sheldon* constructive trust rationale includes a territorial connection, *see Sheldon,* 106 F.2d at 52, that preserves consistency with Congress's decision to keep the copyright laws – presumably including § 504, which prescribes remedies – territorially confined. Moreover, no rational deterrent function is served by making an infringer whose domestic act of infringement – from which he earns no profit – leads to widespread extraterritorial infringement, liable for the copyright owner's entire loss of value or profit from that overseas infringement, particularly if the overseas infringement is legal where it takes place. *See Subafilms,* 24 F.3d at 1097-98 (warning of the disruption to American foreign policy interests and to the policy of domestic enforcement expressed in the Berne Convention that extraterritorial enforcement would cause). Moreover, the resulting over-deterrence might chill the fair use of copyrighted works in close cases.

LANS counters that the assessment of damages based on a domestic act of infringement having had consequences in foreign territories is legitimate under

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Hartford Fire Ins. Co. v. California, 509 U.S. 764, 813 (1993) (Scalia, J., dissenting), an opinion that discussed the distinction in the context of the antitrust laws, which do have some extraterritorial application).

"traditional tort principles." However, it offers no direct support for the proposition that those principles compel the extension of relief – legal or equitable – beyond the boundaries where Congress declared that liability stops.[8] Its policy arguments to the contrary seem largely a complaint about the failure of Congress to make the copyright laws – those creating both rights and remedies – applicable extraterritorially.[9]

III

Accordingly we read *Reuters III* to allow only a narrow exception for the recovery of the infringer's profits to *Subafilms*'s general rule against extraterritorial application. We conclude therefore that the Copyright Act does not provide LANS recovery for actual damages resulting from Reuters's and Visnews's infringement.[10]

AFFIRMED.

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[8] On this point, LANS cites *Famous Music,* 201 F. Supp. at 568-69, but that case applied "traditional tort principles" in adjudicating liability rather than in imposing damages.

[9] *See, e.g.*, Jane C. Ginsburg, *Extraterritoriality and Multiterritoriality in Copyright Infringement,* 37 Va. J. Int'l L. 587, 598 (1997) (criticizing *Reuters III* for creating a parallel arbitrary distinction).

[10] There are also several evidentiary rulings that the parties dispute on appeal, all of which relate to the extent of damages. Because we agree with the district court that LANS may not recover actual damages, and because we reverse an erroneous evidentiary ruling only if the admission or exclusion of the evidence was prejudicial, *see, e.g.*, *Maffei v. N. Ins. Co.,* 12 F.3d 892, 897 (9th Cir. 1993), we need not reach the evidentiary issues.

SILVERMAN, Circuit Judge, dissenting:

In our previous decision, *L.A. News Serv. v. Reuters Television Int'l, Ltd.* (*Reuters III*), 149 F.3d 987 (9th Cir. 1998), we decided the very issue the majority now re-decides the other way. At that time, we identified the issue as whether "a plaintiff may recover actual damages accruing from the unauthorized exploitation abroad of copyrighted work infringed in the United States." *Id.* at 989. We held that it could. Our mandate said, "We REVERSE the ruling barring the claim for extraterritorial damages and REMAND for a trial on actual damages, with directions that if LANS elects to recover actual damages, the award of statutory damages be vacated." *Id.* at 997.

The majority now holds that when we said "actual damages," we didn't mean actual damages, but only whatever profits the infringer might have realized. This new holding is not only at odds with our previous holding, but it fails to take account of the fact that the Copyright Act itself specifically uses the terms "actual damages" and "profits" separately and distinctly.[1] The district court should have allowed LANS to do what we said it could do – prove its actual damages. For that reason, I respectfully dissent.

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[1] 17 U.S.C. § 504(b):

> **(b) Actual Damages and Profits.** – The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.

At this stage of the case, the majority's reliance on *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), is puzzling. In *Sheldon,* the question of what constitutes "actual damages" wasn't an issue or even discussed. *Sheldon* was an appeal from an accounting. The sole question was whether the plaintiff could recover the profits earned by the defendant from its foreign exploitation of a motion picture that infringed the plaintiff's stage play, profits that were *discovered* during the accounting. The court held that the plaintiff could, on a constructive trust theory. "Actual damages" had nothing to do with the case.

Subafilms Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088 (9th Cir. 1994) doesn't shed light on this problem, either. It merely holds that there is no recovery under American copyright law for infringements that do not occur within the United States. True enough, but as we previously held in *Reuters III,* "actual damages" *can* be recovered when the infringement occurs wholly within the United States. *Reuters III* at 992, 997. That's exactly what happened here, and why we reversed for a trial at which LANS would be allowed to prove its actual damages, if any. This is not a novel concept. *See Update Art, Inc. v. Modiin Publ'g, Ltd.,* 843 F.2d 67, 70 n.4 (2d Cir. 1988); *Famous Music Corp. v. Seeco Records, Inc.,* 201 F. Supp. 560 (S.D.N.Y. 1961).

There are any number of ways to compute actual damages. Neither the Copyright Act, nor our prior decision in *this* case, nor any *other* case, limits the calculation of actual damages to only the infringer's ill-gotten profits. LANS should have been allowed to put on its proof of its actual damages, as we previously held it could. I would remand for a trial on actual damages (just as we did *last*

time) except *this* time, I would add that we really, really mean it.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

LOS ANGELES NEWS SERVICE, Plaintiff vs. REUTERS TELEVISION INTERNATIONAL LIMITED; VISNEWS INTERNATIONAL (USA) LIMITED; REUTERS AMERICA HOLDINGS, INC.; REUTERS AMERICA, INC., Defendants	No. CV 95-1073 CBM (SHx) **ORDER** Granting Motion for Summary Adjudication of Plaintiff's Claim for Actual Damages (Filed Nov. 17, 2000)

The matter before the Court, the Honorable Consuelo B. Marshall, United States District Judge presiding, is Defendants' Motion for Summary Adjudication of Plaintiff's Claim for Actual Damages. The parties also filed motions to strike portions of declarations relating to the Motion. Counsel appeared before the Court on Monday, October 16, 2000. Upon consideration of the arguments presented, the Court grants Defendants' Motion for Summary Adjudication of Plaintiff's Claim for Actual Damages.

BACKGROUND & PROCEDURAL HISTORY

On April 29, 1992, Plaintiff Los Angeles News Service provided live video coverage from its helicopter of events at Florence Avenue and Normandie Boulevard, including

the attacks and beatings of two truck drivers. The copyrighted works at issue in this matter are entitled "Beating of Reginald Denny" and "Beating of Man in White Panel Truck" (collectively, the "Works"). At the time of the Los Angeles Riots, Plaintiff was under contract to KCOP Television, Channel 13 in Los Angeles to provide live video broadcasts of news events, which KCOP could rebroadcast. District Court's Findings of Fact (FOF) ¶ 9.

In February 1995, Plaintiff filed a Complaint in the United State District Court, Central District, against Defendants Reuters Television International, Limited; Visnews International (USA), Limited, Reuters America Holdings, Inc. and Reuters America, Inc. (collectively, "Defendants"). The Complaint alleged, among other things, that Defendants violated the Copyright Act by copying Plaintiff's Works and distributing such Works both in the United States and abroad.

The district court made the following Findings of Fact in the action:

On April 29 1992, the Works were broadcast live on KCOP, with a narrative report by Robert Tur and camera work done by Marika Tur. Because of the live broadcast, the demand for licenses for the Works was immediate. "Before the Turs had landed their helicopter," news agencies were calling to request licenses. The Turs granted licenses to NBC, CBS and ABC within hours of the event.

Specifically, Mr. Tur granted to NBC a 48-hour license to use the Works on its news programs, with certain restrictions, including that the tape could not be distributed to overseas broadcasters or affiliates. Plaintiff's

Works were shown, as agreed by license, on NBC's *Today Show* on the morning of April 30, 1992.

On the morning of April 30, 1992, the Works were transmitted by fiber link from NBC's control room in New York to Visnews' New York Office. Visnews made an unauthorized copy of Plaintiff's Works and transmitted the copy to the New York office of the European Broadcast Union ("EBU"). The EBU also made an unauthorized copy of the Works. Neither Visnews nor EBU was authorized by Plaintiff to obtain the Works from NBC or to use them in any form.

Near the time of creation of the Works, Plaintiff charged ABC and CBS each $3500 for licenses bearing the same restriction as the NBC license. Later, Plaintiff granted additional licenses of the Works domestically for amounts ranging from $5000 to $6500. An unauthorized airing of one of the Works by an entity otherwise licensed to use the Works would result in a $10,000 liquidated damage figure.

In July 1996, the district court granted Defendants' motion for summary judgment on several grounds, including (1) Defendants could not be held liable for extraterritorial copyright infringement, and (2) Plaintiff has no admissible evidence that any unauthorized uses of its copyrighted works are attributable to Defendant's infringing activities. *Los Angeles News Svc. v. Reuters Television Int'l, Ltd.*, 942 F. Supp. 1265, 1266-67 (C.D. Cal. 1996). After a bench trial on the remaining issue of domestic infringement, the district court found that Defendants had infringed upon Plaintiff's copyright in the Works and awarded to Plaintiff statutory damages in the amount of

$60,000. *Los Angeles News Svc. v. Reuters Television Int'l, Ltd.*, 942 F. Supp. 1275, 1283-84 (C.D. Cal. 1996).

Both parties appealed the district court's judgment to the Ninth Circuit Court of Appeals. On appeal, the Ninth Circuit held that Plaintiff is entitled to recover extraterritorial damages, if any, resulting from Defendants' domestic acts of infringement of Plaintiff's Works. *Los Angeles News Service*, 149 F.3d at 997. The Ninth Circuit remanded the action to this Court for a trial on actual extraterritorial damages. *Id.* at 992.

On September 25, 2000, Defendants filed this Motion for Summary Adjudication of Plaintiff's Claim for Actual Damages. Defendants argue that, due to the limited reach of the Copyright Act, Plaintiff is entitled to recover only those damages, if any, that Defendants hold in constructive trust – namely, any of Defendants' profits or any unjust enrichment gained from Defendants' domestic acts of infringement.

On October 2, 2000, Plaintiff filed an Opposition to Defendants' Motion for Summary Adjudication. Plaintiff argues that it is entitled to recover the lost market value of the Works as well as Defendants' profits.

DISCUSSION

The key disputes which Defendants ask the Court to adjudicate are: (1) whether Plaintiff's recovery of extraterritorial damages is limited to Defendants' profits and unjust enrichments gained from their domestic acts of infringement, and (2) whether there is a genuine issue of material fact regarding the amount of Defendants' profits and unjust enrichment earned from Defendants' domestic

infringing activities.[1] Before discussing the merits of Defendants' motion for summary adjudication, the parties' evidentiary objections will be addressed.

I. Evidentiary Objections and Motions to Strike

A. Objections to Portions of Robert Tur's Declaration

Defendants objected to several portions of Mr. Tur's Declaration and moved the Court to strike such portions. The Court rules upon Defendants' objections as they are numbered in Defendants' Motion to Strike.

1. Sustained.
2. Sustained.
3. Sustained.
4. Sustained.
5. Sustained.
6. Sustained.
7. Sustained.
8. Overruled.
9. Sustained.

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[1] The Court understands from the parties that the purpose of this Motion is solely to determine the scope of extraterritorial damages that Plaintiff may recover based on Defendants' domestic acts of infringement. The Court does not address the sufficiency of Plaintiff's evidence to support Plaintiff's lost profits or licensing revenue to the extent such damages extend beyond Defendants' profits and unjust enrichment.

10. Sustained.

11. Sustained.

12. Sustained.

13. Sustained.

14. Sustained.

15. Sustained.

The Court strikes the portions of Mr. Tur's Declaration as to which Defendants' objections were sustained.

B. Objections to Thomas R. Edwards's Declaration

Defendants objected to the admissibility of Mr. Edwards's Declaration on the ground that it is not helpful to the trier of fact and offers unreliable expert testimony.

The admissibility of expert testimony is governed by Rule 702 of the Federal Rules of Evidence, which provides:

> If scientific, technical or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise.

FED. R. EVID. 702. District courts act as gatekeepers by "ensuring that an expert's testimony both rests on a reliable foundation and is relevant to the task at hand." *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 141 (1999); *see also General Elec. Co. v. Joiner*, 522 U.S. 136, 142

(1997). A district court's decision to exclude expert testimony is reviewed for abuse of discretion. *Kumho*, 526 U.S. at 146.

To determine the reliability of expert testimony, courts may consider the following factors: whether a theory or technique can be (and has been) tested; whether it has been subjected to peer review and publication; whether, in respect to a particular technique, there is a high known or potential rate of error; whether there are standards controlling the technique's operation; and whether the theory or technique enjoys general acceptance within a relevant scientific community. *Kumho*, 526 U.S. at 149-50 (citing *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 592-94 (1993)). The Ninth Circuit has held that it is not an abuse of the trial court's discretion to exclude expert testimony, which it found to be unreliable and speculative. *Cabrera v. Cordis Corp.*, 134 F.3d 1418, 1422 (9th Cir. 1998); *Diviero v. Uniroyal Goodrich Tire Co.*, 114 F.3d 851, 853 (9th Cir. 1997).

In his Declaration, Mr. Edwards compares fourteen copies of various foreign news broadcasts containing Plaintiff's Works to three video feeds of Plaintiff's Works by Defendants and to one video feed by World Television Network ("WTN"). Mr. Edwards notes that Defendants' video feeds contained 13 images or sequences of images. Comparing the images of the foreign broadcasts to Defendants' video feeds, Mr. Edwards concludes that all fourteen copies of the various foreign news broadcasts generated from the Defendants' video feeds. Mr. Edwards further concludes that none of the broadcasts generated from the WTN feed.

Mr. Edwards's Declaration fails to lay a sufficient foundation as to Mr. Edwards's qualifications as an expert witness and as to the reliability of his methods. Mr. Edwards declares that "[h]e has developed and implemented analytical techniques for digital image processing and related two-dimensional data analysis for over 20 years in aerospace and medical instrument." However, Mr. Edwards does not clarify how this experience qualifies him to testify on forensic video analysis. Mr. Edwards also declares that he has testified in a dozen trials in the area of forensic video analysis. No declarations are made regarding the reproducibility of Mr. Edwards's method, the known or potential error rates, the standards for applying Mr. Edwards's technique, the review of Mr. Edwards's method by peers or the general acceptance of Mr. Edwards's method in the relevant scientific community. Plaintiff failed to provide the Court with any basis upon which the Court could determine the reliability of Mr. Edwards's declaration under *Daubert* and *Kumho*. Furthermore, Mr. Edwards's declaration is limited to comparing feeds by Visnews and WTN. There are no comparison to other potential sources, such as feeds by CBS or ABC.

Based on the foregoing, the Court sustains Defendants' objections and strikes Mr. Edwards Declaration.

C. Objections to Mr. Ted Kavanau's Declaration

Defendants objected to Mr. Kavanau's Declaration on the ground that it is unreliable and nonhelpful expert testimony.

The admissibility of expert testimony based on experience is governed by Federal Rule of Evidence 702. The same standard for scientific testimony applies to expert testimony based on experience. *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 151 (1999).

In his Declaration, Mr. Kavanau offers various vague, speculative opinions regarding the value of the Works and the likelihood that foreign news stations would air the Works without authorization. Mr. Kavanau's opinions are not based on any particular facts, except that Plaintiff's Works capture "compelling" footage. Mr. Kavanau's vague statements regarding the value of the Works (e.g., the Works would have "worldwide appeal" and are worth a "substantial fee") are not likely to be helpful to the trier of fact. Similarly, Mr. Kavanau's speculative statements that any news agency would air the Works, even without authorization, are not based on any facts and are not likely to be helpful to the trier of fact. Furthermore, Plaintiffs proffered no evidence upon which the Court could determine whether Mr. Kavanau's declaration satisfies the requirements articulated in *Daubert* and *Kumho*.

The Court sustains Defendants' objections and strikes Mr. Kavanau's Declaration.

D. Objections to Portions of Jeremy Smith's Declaration

Plaintiff objected to several portions of Mr. Smith's Declaration. The Court rules on Plaintiff's objections as they are numbered in Plaintiff's motion to strike.

1. Overruled.
2. Sustained.
3. Sustained.
4. Overruled.
5. Sustained.
6. Overruled.
7. Sustained.
8. Sustained.

The Court strikes the portions of Mr. Smith's Declaration as to which Plaintiff's objections were sustained.

E. Objections to Exhibits to Mr. Salvaty's Declaration

Plaintiff objects to portions of exhibits to Mr. Salvaty's Declaration filed in support of Defendants' Reply Brief. The Court rules on Plaintiff's objections as they are numbered in plaintiff's motion to strike.

1. Overruled.
2. Sustained.
3. Sustained.
4. Sustained.
5. Overruled.
6. Overruled.

The Court strikes the portions of exhibits of Mr. Salvaty's declaration as to which Plaintiff's objections were sustained.

II. Motion for Summary Adjudication on Actual Damages

The Ninth Circuit held that Plaintiff "is entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants." *Los Angeles News Service*, 149 F.3d at 992. The Ninth Circuit remanded the action for a trial on actual damages. *Id.*

Standard for Summary Adjudication.

Federal Rule of Civil Procedure 56 provides for summary judgment against a party when "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is *no genuine issue as to any material fact* and that the moving party is *entitled to a judgment as a matter of law.*" FED.R.CIV.P. 56(c). A party seeking summary judgment bears the initial burden of informing the court of the basis for its motion and of identifying those portions of the pleadings and discovery responses which demonstrate the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, [illegible]3, 106 (1986). Where the moving party will have the burden of proof on an issue at trial, the movant must affirmatively demonstrate that no reasonable trier of fact could find other than for the moving party. However, on an issue for which the nonmoving party will have the burden of proof at trial, the movant can prevail merely by pointing out that there is an absence

of evidence to support the nonmoving party's case. *Id.* If the moving party meets its initial burden, the nonmoving party must then set forth, by affidavit or as otherwise provided in Rule 56, "specific facts showing that there is a genuine issue for trial." FED.R.CIV.P. 56(e); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250 (1986).

In judging evidence at the summary judgment stage, the Court does not make credibility determinations or weigh conflicting evidence and draws all inferences in the light most favorable to the nonmoving party. *T.W. Elec. Svc., Inc. v. Pacific Elec. Contractors Ass'n*, 809 F.2d 626, 630-31 (9th Cir. 1987). The evidence presented by the parties must be admissible. FED.R.CIV.P. 56(e). Conclusory, speculative testimony in affidavits and moving papers is insufficient to raise genuine issues of fact and defeat summary judgment. *See Thornhill Pub. Co., Inc. v. GTE Corp.*, 594 F.2d 730, 738 (9th Cir. 1979). Hearsay statements found in affidavits are inadmissible. *See, e.g., Fong v. American Airlines, Inc.*, 626 F.2d 759, 762-63 (9th Cir. 1980).

Standard for Extraterritorial Damages.

It is well-settled that the Copyright Act has no effect outside of the United States. *Los Angeles News Service*, 149 F.3d at 990. In finding that a plaintiff is entitled to extraterritorial damages resulting from a domestic act of infringement, the Ninth Circuit adopted the narrow exception in *Sheldon*, wherein the Second Circuit held that a "plaintiff could recover the *profits* from exhibiting a motion picture abroad where the infringing copy had been made in the United States." *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939), *aff'd*, 309

U.S. 390 (1940). The Ninth Circuit quoted the Second Circuit's reasoning:

> The [copyrighted film] negatives were 'records' from which the work could be 'reproduced, and it was a tort to make them in this country. The plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation, whether in the form of money remitted to the United States, or of increase in the value of shares of foreign companies held by the defendants. We need not decide whether the law of those countries where the negatives were exploited, recognized the plaintiffs' equitable interest; we can assume arguendo that it did not, for, as soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust, whatever their form.

Los Angeles News Service, 149 F.3d at 991 (quotations omitted).

The Ninth Circuit clearly adopted the Second Circuit's logic that, under a constructive trust theory, a plaintiff is entitled to recover from domestic infringers *any* profits or other unjust enrichment, whether such profits or enrichment accrued in the United States or abroad. Although not expressly stated, the limited nature of the Ninth Circuit's rationale implies that Plaintiff's recovery is limited to damages that a defendant is holding in constructive trust for the Plaintiff. The limited extraterritorial reach of the Copyright Act is based on the theory that a plaintiff is entitled to "any *profits*" resulting from the domestic infringement of the copyrighted works. *See Sheldon*, 106 F.2d at 52. Any broader interpretation of the *Sheldon* rule

may frustrate Congress' intent that the Copyright Act will not apply extraterritorially. To permit Plaintiff to recover damages other than Defendants' profits or unjust enrichment would expand the Ninth Circuit's holding beyond the scope of its rationale and would effectively permit Plaintiff to recover damages for extraterritorial acts of infringement.

As a matter of law, with respect to extraterritorial damages, the Copyright Act entitles a plaintiff to recover only those profits or other unjust enrichments which a defendant receives as a result of its domestic acts of infringement.

Calculation of Infringer's Profits & Unjust Enrichment.

When establishing the amount of a defendant's profits earned from an infringement, the plaintiff is required to prove the amount of money received from the unauthorized sales of defendants. 17 U.S.C. § 504(b); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 514 (9th Cir. 1988) (citations omitted). The burden then shifts to the defendant to prove the costs to be deducted in arriving at profit. *Frank Music*, 772 F.2d at 514. "Any doubt as to the computation of costs and profits is to be resolved in favor of the plaintiff." *Id.*

When an infringer's profits or unjust enrichment are only remotely and speculatively attributable to the copyright owner, courts will deny recovery to the copyright owner. *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 886 F.2d 1545, 1553 (9th Cir. 1989) (denying profits deemed "too attenuated and too speculative"). Enhanced goodwill and market recognition may be treated as profit "so long as the amount of the award is based on a factual

basis rather than 'undue speculation.'" *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 403 (2d Cir. 1989). A court will deny damages based on enhanced good will where the plaintiff "fail[ ] to prove either any change in [defendant's] goodwill that may have occurred during the [infringement] period, or even the existence of any goodwill." *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 775 F. Supp. 544, 571 (E.D.N.Y. 1991), *aff'd in part, rev'd on other grounds,* 982 F.2d 693 (2d Cir. 1992).

No Genuine Issues Regarding Amount of Defendants' Profits or Unjust Enrichment.

There is no genuine issue of material facts regarding the amount of profits earned by Defendants. The undisputed facts before the Court are:

- "From 1992 through the present, [Defendants] have provided video services to its subscribers on an annual basis." Undisputed Fact ¶ 51.
- Except for sales from their archives, Defendants "do not sell feeds independently or on a story-by-story basis." Undisputed Fact ¶ 52.
- Defendants' "employees were prohibited from selling or licensing the Works from the [Defendants'] video archive." Undisputed Fact ¶ 62. Furthermore, "[a]lthough [Defendants] maintained a copy of plaintiff's footage in its video archive in London, they did not license of [sic] sell the footage to anyone." Undisputed Fact ¶ 56.
- "Subscribers pay an advance fee for their subscription service." Undisputed Fact ¶ 53.

> Defendants' "subscription fee did not vary depending on the amount of footage used by [Defendants'] subscribers." Undisputed Fact ¶ 54.

In addition to these facts, Defendants provided evidence to support the following facts: (1) "There is no evidence that, as a result of [Defendants] infringement, additional broadcasters decided to subscribe to [Defendants'] video services." Defendants' Statement of Facts ¶ 63; and (2) "There is no evidence that [Defendants] were able to charge higher rates for its subscriptions because of the infringement at issue in this case." *Id.* at ¶ 64. Plaintiff attempts to dispute these facts by citing Mr. Tony Donovon's deposition testimony. Explaining the value of unique footage, Mr. Donovon testified:

> [T]here was a major competitive advantage we would have had over our competition – unique, unrepeatable video – which is difficult to translate into actual sales or renewals but one expects to have an impact on your contract renewal rate and your contract price on those renewals."

Donovon Depo. 56:2-15. Mr. Donovon's deposition testimony does not refer specifically to Plaintiff's Works, but generally to how a unique video of Israeli President Rabin's assassination may have hypothetically increased sales or renewals if it had been purchased by Defendants. This speculative testimony is not sufficient to create a genuine issue of material fact when there is no evidence that either Defendants' subscription rate or subscribers list was affected by Defendants' copying and distribution of Plaintiff's Works. Furthermore, Plaintiff presents nothing more than speculative testimony, in the form of

Mr. Donovon's testimony as quoted above, that Defendants' goodwill may have been enhanced by the infringing use of Plaintiff's Works.

Plaintiff failed to produce any evidence that Defendants made any sales which infringed upon Plaintiff's Works. There is no genuine issue of the material fact that Defendants' made no profits nor gained any unjust enrichment as a result of their domestic infringing activities.

In light of the fact that there is no genuine dispute that Defendant's made no profits nor gained any unjust enrichment from their infringing activities, the Court finds that Defendants are entitled to judgment as a matter of law.

CONCLUSION

Based on the foregoing, the Court SUSTAINS Defendants' objections to and STRIKES the Declarations of Mr. Ted Kavanau and Mr. Thomas R. Edwards. The Court SUSTAINS in part and OVERRULES in part Defendants' objections to Mr. Tur's Declaration and STRIKES those portions of Mr. Tur's Declaration to which Defendants' objections have been sustained. The Court SUSTAINS in part, OVERRULES in part Plaintiff's objections to Mr. Smith's Declaration and STRIKES those portions of Mr. Smith's Declaration to which Plaintiff's objections have been sustained. The Court SUSTAINS in part, OVERRULES in part Plaintiff's objections to exhibits to Mr. Salvaty's Declaration and STRIKES those portions of such exhibits to which Plaintiff's objections have been sustained. The Court GRANTS Defendants' Motion for Summary Adjudication of Plaintiff's Claim for Actual Damages.

On appeal, the Ninth Circuit held that Plaintiff could attempt to prove actual extraterritorial damages or elect statutory damages. *Los Angeles News Service*, 149 F.3d at 997. If Plaintiff elects to recover statutory damages, the district court's previous award of $60,000 will be reinstated.

SO ORDERED.

DATE: November 17, 2000

/s/ Consuelo B. Marshall
CONSUELO B. MARSHALL
UNITED STATES DISTRICT JUDGE

149 F.3d 987

United States Court of Appeals,
Ninth Circuit.

LOS ANGELES NEWS SERVICE, Plaintiff-Appellant,
v.
REUTERS TELEVISION INTERNATIONAL, LIMITED; Visnews International (USA), Limited; Reuters America Holdings, Inc.; Reuters America, Inc., Defendants-Appellees.
LA NEWS SERVICE, Plaintiff-Appellee,
v.
REUTERS TELEVISION INTERNATIONAL, LIMITED; Visnews International (USA), Limited; Reuters America Holdings, Inc.; Reuters America, Inc., Defendants-Appellants.

Nos. 97-55113, 97-55114.

Argued and Submitted May 4, 1998.
Decided July 13, 1998.
As Amended on Denial of Rehearing and Suggestion for Rehearing En Banc Aug. 25, 1998.

William A. Bergen, Law Offices of William A. Bergen, Auburn, CA, for plaintiff/appellant/cross-appellee.

Louis P. Petrich, Leopold, Petrich & Smith, Los Angeles, CA, for defendants/appellees/cross-appellants.

Appeals from the United States District Court for the Central District of California; Kim McLane Wardlaw, District Judge, Presiding. D.C. No. CV-95-01073-KMW.

Before: CANBY and KLEINFELD, Circuit Judges, and SCHWARZER,* Senior District Judge.

SCHWARZER, Senior District Judge:

On this appeal we must decide whether, under the Copyright Act, a plaintiff may recover actual damages accruing from the unauthorized exploitation abroad of copyrighted work infringed in the United States; whether defendants' exploitation of the work was protected as fair use; and whether the district court erred in its award of statutory damages.

BACKGROUND

Los Angeles News (LANS) is an independent news organization which produces video and audio tape recordings of newsworthy events and licenses them for profit. During the April 1992 riots following the Rodney King verdict, LANS covered the events at Florence Avenue and Normandie Boulevard in Los Angeles from its helicopter, producing two videotapes: "The Beating of Reginald Denny" and "Beating of Man in White Panel Truck" (the works). LANS copyrighted these works and licensed them to National Broadcasting Company, Inc. (NBC), which used them on the *Today* show with the logo of KCOP, a Los Angeles station not affiliated with NBC, superimposed (known in the trade as the downstream). Under the agreement, LANS retained ownership of the works and the right to license them.

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* Honorable William W Schwarzer, Senior United States District Judge for the Northern District of California, sitting by designation.

The Reuters defendants (Reuters Television International, Ltd., Reuters America Holdings, Inc., and Reuters America, Inc., collectively Reuters) are television news agencies that gather and provide audiovisual and other news material to their subscribers for an annual fee. Visnews International (USA), Ltd. (Visnews), a joint venture of Reuters Television Limited, NBC and the British Broadcasting Company, had a news supply agreement with NBC News Overseas. When NBC broadcast the *Today* show featuring the LANS footage to its affiliates, it simultaneously transmitted the show via fiber link to Visnews in New York. Visnews made a videotape copy of the works as broadcast and transmitted it to subscribers in Europe and Africa. It also transmitted copies of the videotape to the New York office of the European Broadcasting Union (EBU), which in turn made a videotape copy and transmitted it via satellite to Reuters' London branch, which provided copies to its subscribers.

LANS brought this action for copyright infringement against the Reuters defendants and Visnews. Defendants moved for summary judgment on several grounds. So far as relevant to this appeal, they contended that (1) extraterritorial infringement does not violate American copyright law, (2) the fair use doctrine precludes a finding of infringement, and (3) LANS had no evidence of actual damage. The district court granted defendants' motion with respect to extraterritorial infringement and the claim for actual damages.[1] It denied the motion with respect to

[1] The district court considered only LANS's claims of domestic damages. *See Los Angeles News Serv. v. Reuters Television Int'l, Ltd.*, 942 F.Supp. 1265, 1274 n. 7 (C.D.Cal.1996) ("*Reuters I*").

the fair use defense and entered partial summary judgment for LANS determining that the defense did not shield defendants' actions. Following a bench trial on the remaining issues, the district court found that Visnews had infringed by making one copy of each videotape and contributing to the making by EBU of one copy of each tape, LANS failed to prove the infringement was willful, and defendants failed to prove that it was innocent. The court entered judgment for LANS for $60,000 in statutory damages based on the four domestic infringements by Visnews.[2] In a subsequent order, the court denied LANS's and Reuters' applications for costs and attorney's fees.

LANS appeals from the ruling barring extraterritorial damages and defendants cross-appeal from the ruling denying the fair use defense and from the damage award. Both appeal from the order denying attorney's fees and costs. We have jurisdiction pursuant to 28 U.S.C. § 1291.

DISCUSSION

I. EXTRATERRITORIAL DAMAGES

It is settled that the Copyright Act does not apply extraterritorially. *Subafilms, Ltd. v. MGM-Pathe Communications Co.,* 24 F.3d 1088, 1094 (9th Cir.1994) (en banc). For the Act to apply, "at least one alleged infringement must be completed entirely within the United States." *Allarcom Pay Television Ltd. v. General Instrument Corp.,* 69 F.3d 381, 387 (9th Cir.1995). The district court found

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[2] The decision is reported at 942 F.Supp. 1275 (C.D.Cal.1996) ("*Reuters II*").

that "any damages arising extraterritorially are the result of extraterritorial infringement." *Reuters I,* 942 F.Supp. at 1269. Relying on *Allarcom,* the court held that "[t]he transmissions from Visnews and [EBU] did not violate the Copyright Act. . . . Therefore, Defendants are not liable . . . for damages arising extraterritorially." *Id.* at 1269. We review the district court's grant of partial summary judgment de novo. *Amdahl Corp. v. Profit Freight Sys., Inc.,* 65 F.3d 144, 146 (9th Cir.1995).

The district court's ruling was premised on the assumption that LANS's claim was based on the transmissions from Visnews and EBU to Reuters. However, it also held that Visnews completed acts of infringement in the United States when it copied the works in New York and then transmitted them to EBU which also copied them in New York. Each act of copying constituted a completed act of infringement. *See* 17 U.S.C. § 106(1). It was only after these domestic acts of infringement had been completed that Visnews and EBU transmitted the works abroad.

This case then presents a situation different from that in *Subafilms* and *Allarcom.* In *Subafilms,* the allegedly infringing conduct consisted solely of authorization given within the United States for foreign distribution of infringing videocassettes. 24 F.3d at 1090 n. 3. Similarly, in *Allarcom,* the alleged infringement consisted either of authorization given in the United States for infringement in Canada or broadcasts of copyright material from the United States into Canada, with the infringement not completed until the signals were received in Canada. 69 F.3d at 387.

The issue before us – which the *Subafilms* court did not resolve – is whether LANS "may recover damages for

international distribution of the [works] based on the theory that an act of direct infringement, in the form of a reproduction of the . . . [works], took place in the United States." *Subafilms,* 24 F.3d at 1099; *see also id.* at 1094. While this circuit has not heretofore addressed the issue, the Second Circuit has done so in a line of cases beginning with *Sheldon v. Metro-Goldwyn Pictures Corp.,* 106 F.2d 45, 52 (2d Cir.1939), *aff'd,* 309 U.S. 390, 60 S.Ct. 681, 84 L.Ed. 825 (1940). In *Sheldon* the court held, in an opinion by Judge Learned Hand, that plaintiff could recover the profits from exhibiting a motion picture abroad where the infringing copy had been made in the United States. As Judge Hand explained:

> The [copyrighted film] negatives were "records" from which the work could be "reproduced", and it was a tort to make them in this country. The plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation, whether in the form of money remitted to the United States, or of increase in the value of shares of foreign companies held by the defendants. We need not decide whether the law of those countries where the negatives were exploited, recognized the plaintiffs' equitable interest; we can assume arguendo that it did not, for, as soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust, whatever their form.

106 F.2d at 52. *See also Update Art, Inc. v. Modiin Publ'g, Ltd.,* 843 F.2d 67, 73 (2d Cir.1988) (permitting recovery of copyright damages accruing abroad from illegal copying in the United States); *Famous Music Corp. v. Seeco Records, Inc.,* 201 F.Supp. 560, 568-69 (S.D.N.Y.1961)

(same). *See also* 4 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 14.05, at 14-96 (1996) (stating that copyright holders acquire an equitable interest in infringing works produced in the United States as soon as they come into being). *Subafilms* described these cases as being "based . . . on the theory that the infringing use would have been actionable *even if* the subsequent foreign distribution that stemmed from that use never took place." 24 F.3d at 1094. Recovery of damages arising from overseas infringing uses was allowed because the predicate act of infringement occurring within the United States enabled further reproduction abroad.[3]

LANS urges us to adopt the Second Circuit's rule because the unauthorized copying of its works in the United States enabled further exploitation abroad. While the extraterritorial damages resulted from Reuters's overseas dissemination of the works received by satellite transmissions from Visnews and EBU, those transmissions were made possible by the infringing acts of copying in New York. The satellite transmissions, thus, were merely a means of shipping the unlicensed footage abroad for further dissemination.

The *Subafilms* court's concerns are inapplicable to the present case. The Second Circuit rule would not permit application of American law to "acts of infringement that take place entirely abroad." *Subafilms,* 24 F.3d at 1098. Nor would a copyright holder be entitled to recover extraterritorial damages unless the damages flowed from extraterritorial exploitation of an infringing act that

[3] No other circuits appear to have addressed this issue.

occurred in the United States. In *Subafilms,* the court reasoned that liability based solely on the authorization of infringing acts "would produce the untenable anomaly, inconsistent with the general principles of third party liability, that a party could be held liable as an infringer for violating the 'authorization' right when the party that it authorized could not be considered an infringer under the Copyright Act." 24 F.3d at 1094; *see also* 3 Nimmer, *supra,* § 12.04[A][3][b], at 12-88 to 12-93 ("It is perverse to construe Congress' intention as holding liable a person who authorizes an activity that is perfectly legal abroad."). Under the Second Circuit's rule, by contrast, a party becomes liable for extraterritorial damages only when an act of infringement occurs within the United States, subjecting it to liability as an infringer (or a contributory infringer) under the Copyright Act. *Cf. Robert Stigwood Group Ltd. v. O'Reilly,* 530 F.2d 1096, 1100-01 (2d Cir.1976) (copyright holders cannot recover for unauthorized performances of copyrighted work in Canada merely because the performers may have assembled and arranged all necessary elements in the United States); *De Bardossy v. Puski,* 763 F.Supp. 1239 (S.D.N.Y.1991); *Gaste v. Kaiserman,* 683 F.Supp. 63, 65 (S.D.N.Y.1988), *aff'd,* 863 F.2d 1061 (2d Cir.1988); *Ahbez v. Edwin H. Morris & Co. Inc.,* 548 F.Supp. 664, 667 (S.D.N.Y.1982).

Defendants' argument that adoption of the Second Circuit rule would permit plaintiffs to circumvent the statute of limitation by recovering damages for distribution abroad occurring many years after the infringing act in the United States is without merit. An action must be "commenced within three years after the claim accrued." 17 U.S.C. § 507(b). A claim accrues when an act of infringement occurs, not when consequent damage is suffered. *See*

Roley v. New World Pictures, Ltd., 19 F.3d 479, 481 (9th Cir.1994). A plaintiff's right to damages is limited to those suffered during the statutory period for bringing claims, regardless of where they may have been incurred.

We therefore hold that LANS is entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants.

II. FAIR USE

A. Summary Judgment

Defendants moved for summary judgment on the basis of collateral estoppel, relying on the ruling of a district court in another case involving the same works but a different defendant.[4] Inasmuch as that ruling was reversed on appeal, that issue is moot. In its response to defendants' motion, LANS contended that fair use was inapplicable as a defense to the action. Defendants' reply memorandum did not address the fair use issue, nor did defendants object to the district court's treatment of LANS' response as a motion for partial summary judgment.[5] On

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[4] Defendants' collateral estoppel argument rested on the summary judgment granted by another district court to the defendant in *Los Angeles News Service v. KCAL-TV Channel 9*, later reversed by this court. 108 F.3d 1119 (9th Cir.1997), *cert. denied*, 522 U.S. 823, 118 S.Ct. 81, 139 L.Ed.2d 39 (1997). Unlike the defendants in this case, KCAL was one of several Los Angeles television stations that broadcast the Reginald Denny tape after LANS had refused to grant a license. *See id.* at 1120.

[5] The procedure followed by the trial court was proper, *see Portsmouth Square, Inc. v. Shareholders Protective Comm.*, 770 F.2d 866, 869 (9th Cir.1985), but does not bar defendants from arguing on appeal that triable issues precluded entry of partial summary judgment for LANS.

appeal, defendants for the first time argue that triable issues existed precluding entry of partial summary judgment. Defendants cite our decision in *Los Angeles News Service v. KCAL-TV Channel 9,* 108 F.3d 1119 (9th Cir.1997), *cert. denied,* 522 U.S. 823, 118 S.Ct. 81, 139 L.Ed.2d 39 (1997), reversing summary judgment for defendant based on fair use. Defendants identify no triable issues, however, arising under the facts of this case. While *KCAL* involved the same works, it arose in a different context. Unlike the district court in *KCAL,* the court here made a thorough analysis of the evidence bearing on the relevant factors under § 107. Because there are no genuine issues of material fact and "the district court has found facts sufficient to evaluate each of the statutory factors, an appellate court need not remand for further fact finding but may conclude as a matter of law that the challenged use does not qualify as a fair use of the copyright work." *Harper & Row Publishers, Inc. v. Nation Enter.,* 471 U.S. 539, 560, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985) (quoting *Pacific & Southern Co. v. Duncan,* 744 F.2d 1490, 1495 (11th Cir.1984)) (internal quotations and notations omitted); *see also Los Angeles News Serv. v. Tullo,* 973 F.2d 791, 796 (9th Cir.1992) ("Where the district court has found facts sufficient to evaluate each of the statutory factors considered in determining fair use, . . . we may determine as a matter of law whether the challenged use is a fair one."); *Fisher v. Dees,* 794 F.2d 432, 436 (9th Cir.1986) (rejecting argument that fair use is appropriate for determination by summary judgment only when no reasonable jury could have decided the question differently).

B. Merits

The district court rejected the fair use defense after finding that three of the § 107 factors favored LANS.[6] In substance, the court found the uses were commercial rather than nonprofit and not very transformative, that they took the "heart" of the work, and that allowing such uses "would result in a substantially adverse impact on the potential market for the original works." *Reuters I,* 942 F.Supp. at 1274.

We review a grant of summary judgment de novo. *Ledo Fin. Corp. v. Summers,* 122 F.3d 825, 827 (9th Cir.1997). "Fair use is a mixed question of law and fact," which we also review de novo. *Harper & Row,* 471 U.S. at 560, 105 S.Ct. 2218; *Tullo,* 973 F.2d at 796. In doing so, we must balance the nonexclusive factors set out in 17 U.S.C. § 107. *Harper & Row,* 471 U.S. at 549, 105 S.Ct. 2218.

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[6] § 107, provides in relevant part:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work . . . for purposes such as . . . news reporting, . . . is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.

1. Purpose and Character of Use

Although defendants' service does have a news reporting purpose, its use of the works was not very transformative. Reuters copies footage and transmits it to news reporting organizations; Reuters does not explain the footage, edit the content of the footage, or include editorial comment. "Although such transformative use is not absolutely necessary for a finding of fair use, . . . the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Campbell v. Acuff-Rose Music, Inc.,* 510 U.S. 569, 579, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994) (citations omitted).

Reuters used the works for a commercial purpose, providing the works to other news reporting organizations in exchange for an annual fee. While a commercial use does not by itself preclude a defense of fair use, "every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright." *Sony Corp. of Am. v. Universal City Studios, Inc.,* 464 U.S. 417, 451, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). Further, "[t]he crux of the profit/non-profit distinction is . . . whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." *Harper & Row,* 471 U.S. at 562, 105 S.Ct. 2218. LANS normally charges customers for the privilege of copying portions of its works. The district court did not err in finding that this factor weighed in favor of LANS.

Defendants argue that if a broadcaster's use of the works for news reporting may constitute fair use, then "it is obvious that the transmission of such Works to a broadcaster

for such purpose cannot . . . be deemed an infringement." The argument misses the point for it is not the transmission that is the infringement but the unauthorized copying of the works. Moreover, in *Tullo,* the court held that the defendant news clipping service – an organization that monitored news programs, recorded them on videotape, and sold copies to interested individuals – was not protected by the fair use defense. 973 F.2d at 799. The defendant, AVRS, argued that the first factor should weigh in its favor because its clients used the tapes for "research, scholarship and private study."[7] *Id.* at 797. The court held that "the ultimate use to which the customer puts the tape is irrelevant, as is the use AVRS's customers make of the tapes AVRS sells." *Id.* Thus, the question of whether defendants' copying and transmission of the works constitutes fair use is distinct from whether their subscribers' broadcasts of the works are fair use.

2. Nature of Copyrighted Work

The works were factual and informational, *see Hustler Magazine, Inc. v. Moral Majority, Inc.,* 796 F.2d 1148, 1153-54 (9th Cir.1986), and had been published by LANS before their use by Reuters. *See Harper & Row,* 471 U.S. at 564, 105 S.Ct. 2218. The district court did not err in finding that this factor weighed in favor of defendants.

[7] 17 U.S.C. § 107 enumerates scholarship and research as fair uses.

3. Amount and Substantiality of What Was Used

The district court found that this factor weighed in favor of LANS because even though Reuters used only a small portion of the works, it was taken from the "heart" of the works. *See id.* at 565-66, 105 S.Ct. 2218. The court noted that Visnews had copied footage from NBC's newscast, which had edited the LANS footage and selected the "heart" of it, and that Reuters presumably used footage from newscasts. Defendants do not contest this factor.

4. Effect on Market

The district court correctly found that this factor weighed in favor of LANS. The court reasoned that although LANS could not prove loss of subsequent sales of the works, and hence actual adverse effect on the market for videotape footage, defendants' actions should not go unpunished. Such actions if permitted would result in a substantially adverse impact on the potential market for the original works. Reuters and LANS are in the business of providing audiovisual news material to reporting organizations. When such an organization buys footage from Reuters, it does not need to purchase it from LANS, thus lessening the market for LANS's footage. Defendants do not contest this factor.

In sum, the district court, having found that only one of the four statutory factors weighed in favor of defendants, correctly concluded that the fair use defense did not apply. *See Tullo,* 973 F.2d at 799 (holding fair use did not shield a defendant from liability when only one of the four statutory factors weighed in its favor).

III. STATUTORY DAMAGES

Because we reverse the district court's ruling on extraterritorial damages and affirm its ruling on the fair use defense, we must remand for a new trial on actual damages. Accordingly, we conditionally vacate the award of statutory damages. LANS retains the right, however, to make an election before final judgment to recover statutory damages instead of actual damages and profits.[8] 17 U.S.C. § 504(c)(1). Should LANS elect statutory damages, the district court should reinstate its prior award. Against that eventuality, we will address defendants' cross-appeal challenging the statutory damages award.

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[8] The district court, having ruled against LANS's claim for extraterritorial damages, also ruled that LANS failed "to meet its burden of proving actual [domestic] damages, so, at most it is entitled to statutory damages." *Reuters I,* 942 F.Supp. at 1275. Because LANS was foreclosed by these rulings from seeking actual damages, it had no opportunity to make the statutory election on damages. It is therefore not precluded from appealing the district court's ruling regarding actual damages. *Compare Oboler v. Goldin,* 714 F.2d 211, 212-13 (2d Cir.1983) (per curiam) (damages appealable where copyright holder failed to elect between statutory and actual damages prior to directed verdict), *with Twin Peaks Prods., Inc. v. Publications Int'l, Ltd.,* 996 F.2d 1366, 1380 (2d Cir.1993) ("Once a plaintiff has elected statutory damages, it has given up the right to seek actual damages and may not renew that right on appeal by cross-appealing to seek an increase in actual damages."); *see also Jordan v. Time, Inc.,* 111 F.3d 102, 104 (11th Cir.1997) (per curiam) (same).

A. Innocent Infringement [9]

The district court found that defendants did not sustain their burden of proving that they were not aware and had no reason to believe that their acts constituted an infringement of copyright, and thus were not entitled to the reduction in statutory damages under § 504(c)(2). Whether the defendants' infringement was innocent is a factual determination which we review for clear error. *See Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir.1985).

1. LANS's works were embedded in a licensed work

Defendants contend first that they had "no practicable alternative but to copy those portions of [LANS's] works which were embedded in a licensed work." But practicability is not a proxy for innocence. The argument does not sustain the burden of proving that Visnews "was not aware and had no reason to believe that [its] acts constituted an infringement." § 504(c)(2).

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[9] Section 504(c)(2) provides in relevant part:

(2) . . . In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200. . . .

2. Defendants' awareness of limitations on use

Defendants contend that there was no evidence that Visnews accessed the NBC desk log to discover restrictions on the material, and that knowledge of the desk log entry would not have alerted Visnews that the *Today* show contained the works. Their arguments, however, do not address the ground on which the district court based its ruling.

The court agreed that there was no evidence that anyone at Visnews saw the log entry or that knowledge of the entry would have alerted Visnews that copying the NBC feed would violate LANS's copyrights. And it found that there was no direct evidence in the record as to the state of mind of the Visnews or EBU employees who made the infringing copies from the NBC and Visnews feeds.

The court also found, however, that it can be inferred that whoever at Visnews and EBU made the copies of the *Today* show knew that the feed contained "a downstream that credited KCOP for the production."[10] *Reuters II,* 942 F.Supp. at 1280. The downstream indicates that the portion of tape belongs to someone other than NBC and "could indicate that there were in fact restrictions on any further use of the copyrighted works, and lead a reasonable person to inquire whether copying the feed would infringe a copyright held by KCOP or by another." *Id.*

Defendants have the burden of proving that the infringement was innocent. *See* 17 U.S.C. § 504(c)(2). The

[10] Defendants do not attack this finding on appeal.

district court's finding that they failed to meet their burden is not clearly erroneous.

B. Even Assuming No Innocent Infringement, the Award Was Excessive

Defendants argue, in the alternative, that the award was excessive because LANS licensed the works to the networks and others for lesser amounts and had even established a liquidated damage figure of $10,000 for *un* authorized use of the works.

The district court has "wide discretion in determining the amount of statutory damages to be awarded, constrained only by the specified maxima and minima." *Harris v. Emus Records Corp.,* 734 F.2d 1329, 1335 (9th Cir.1984) (citing *L.A. Westermann Co. v. Dispatch Printing Co.,* 249 U.S. 100, 39 S.Ct. 194, 63 L.Ed. 499 (1919)). The court is guided by "what is just in the particular case, considering the nature of the copyright, the circumstances of the infringement and the like." *Peer Int'l Corp. v. Pausa Records, Inc.,* 909 F.2d 1332, 1336 (9th Cir.1990) (quoting *F.W. Woolworth Co. v. Contemporary Arts, Inc.,* 344 U.S. 228, 232, 73 S.Ct. 222, 97 L.Ed. 276 (1952)). Because awards of statutory damages serve both compensatory and punitive purposes, a plaintiff may recover statutory damages "whether or not there is adequate evidence of the actual damages suffered by plaintiff or of the profits reaped by defendant," *Harris,* 734 F.2d at 1335, in order " 'to sanction and vindicate the statutory policy' of discouraging infringement." *Peer Int'l Corp.,* 909 F.2d at 1337 (quoting *Woolworth Co.,* 344 U.S. at 233, 73 S.Ct. 222).

The court found that although LANS charged the networks only $3,500 for the licenses, these licenses

carried numerous restrictions and were of limited duration. Later licenses with various restrictions and durations brought from $5,000 to $6,500. LANS secured a total of $250,000 to $300,000 in license fees for the Reginald Denny tape and less for the other tape. LANS would have charged $250,000 for an unlimited domestic license for the works. The court also took into account the public benefit from such works and the need to encourage their creation. To this end, LANS "must be allowed to profit from them, without concern that expediency, exigent circumstances or the very nature of the fast-breaking news-gathering business will deprive [it] of potential profits from those works." *Reuters II,* 942 F.Supp. at 1283.

The district court "is in a better position than are we to determine appropriate damages." *Harris,* 734 F.2d at 1335; *Peer Int'l Corp.,* 909 F.2d at 1337. Its determination of the amount of statutory damages was not clearly erroneous.

C. Visnews's Contributory Infringement by Providing EBU a Copy of the Works

Defendants also argue that the statutory penalties must be reduced by one-half because the district court erred in ruling that Visnews is liable for contributory infringement with respect to the copies made by EBU of the works Visnews transmitted to it. The district court did not abuse its discretion in ruling that defendants waived this issue, not having raised it until closing argument. Moreover, each side submitted proposed findings of fact and conclusions of law that calculated statutory damages on the basis of all four infringements. We will not take up an issue not properly raised below unless necessary to prevent manifest injustice. *International Union of Bricklayers &*

Allied Craftsman Local Union No. 20 v. Martin Jaska, Inc., 752 F.2d 1401, 1404 (9th Cir.1985). Because defendants have failed to show exceptional circumstances explaining their default, *see id.*, we need not address the issue.

IV. DENIAL OF ATTORNEY FEES

The district court denied the applications for attorney's fees, concluding that "both parties prevailed on significant issues in the case and thus neither can be viewed to be *the* prevailing party." (Emphasis in the original.) Because we reverse the district court's ruling on extraterritorial damages and remand for a trial on actual damages, we must vacate the attorney's fees order without prejudice, of course, to further proceedings following trial.

LANS requests attorney's fees on appeal pursuant to 17 U.S.C. § 505. We conclude that fees are warranted inasmuch as it served the purposes of the Copyright Act for LANS to establish its right to extraterritorial damages and to defend its favorable ruling below on fair use. *Fantasy, Inc. v. Fogerty*, 94 F.3d 553, 561 (9th Cir.1996). We award LANS its costs and attorney's fees on appeal, the amount to be determined by the district court on remand.

CONCLUSION

The district court's judgment is affirmed in part and reversed in part. We AFFIRM the court's ruling barring the fair use defense. We REVERSE the ruling barring the claim for extraterritorial damages and REMAND for a trial on actual damages, with directions that if LANS elects to recover actual damages, the award of statutory

damages be vacated. If LANS elects to recover statutory damages, the present award shall stand. The ruling denying attorney's fees and costs is VACATED without prejudice to further proceedings upon entry of judgment. We award LANS its attorney's fees and costs on appeal, the amount of attorney's fees to be determined by the district court on remand.

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942 F.Supp. 1275

United States District Court, C.D. California.

LOS ANGELES NEWS SERVICE, Plaintiff, v. REUTERS TELEVISION INTERNATIONAL, LIMITED; Visnews International (USA), Limited; Reuters America Holdings, Inc.; Reuters America, Inc., Defendants.

No. CV-95-1073-KMW (SHx).

Oct. 4, 1996.

William A. Bergen, Law Offices of William A. Bergen, Auburn, CA, for Plaintiff.

Louis P. Petrich, Robert S. Gutierrez, Leopold, Petrich & Smith, A Professional Corporation, Los Angeles, CA, Patricia Duncan, Burbank, CA, for Defendants.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

WARDLAW, District Judge.

This matter came on regularly for trial of the question of statutory damages for the infringements of two copyrighted works owned by Plaintiff on September 24, 1996, in the courtroom of the Honorable Kim McLane Wardlaw, United States District Judge. Plaintiff appeared by and through its attorney, William A. Bergen. Defendants Reuters Television International, Ltd., Visnews International (USA), Ltd., Reuters America Holdings, Inc. and Reuters America, Inc. appeared by and through their attorneys Louis P. Petrich and Robert S. Gutierrez of Leopold, Petrich & Smith and Patricia Duncan. Evidence by way of affidavits, written discovery, documents, photographs, videotapes and other exhibits was introduced.

This Court previously granted in part and denied in part Defendants' Motion for Summary Judgment by Order entered July 23, 1996, and addresses the remaining issues at this time. The matter having been argued by the parties, taken under submission for decision, and the Court being fully apprised in the premises, and **GOOD CAUSE APPEARING THEREFOR**, the Court does now hereby make the following:

FINDINGS OF FACT

1. Plaintiff Los Angeles News Service ("LANS") is a fictitious business name of Robert and Marika Tur, who together comprise an independent news organization engaged in the business of independent news gathering and production, and the sale of news video, videotapes, photographs and other products. On April 29, 1992, LANS provided live video coverage from its helicopter of events at Florence Avenue and Normandie Boulevard, including the attacks and beatings of two truck drivers. Plaintiff's copyrighted videotape known as "*Beating of Reginald Denny*" is registered with the United States Copyright Office, bearing Registration No. PA576704, which had its first publication on April 29, 1992 and had an effective date of registration of May 19, 1992. Plaintiff's copyrighted videotape known as "*Beating of Man in White Panel Truck*" is registered with the United States Copyright Office, bearing Registration No. PA576703, which had its first publication on April 29, 1992 and had an effective date of registration of May 19, 1992.

2. While LANS is an independent news operation, it operates under contract to other news organizations and licenses videotapes of news events to be used by other

news operations for television and print media. LANS specializes in utilizing its helicopter for news coverage.

3. The Defendants are Visnews International (USA), Ltd., ("Visnews"); Reuters Television International, Ltd.; Reuters America Holdings, Inc.; and Reuters America, Inc.

4. At all relevant times, Visnews was a television news agency that gathered and provided footage of audio-visual material to its subscribers who paid an annual fee for his service.

5. Reuters Television is, among other things, a television news agency that gathers and provides audio-visual news material to its subscribers who pay an annual fee for this service.

6. Reuters America, Inc. is, among other things, a news and information supplier to subscribers who pay an annual fee for this service.

7. Reuters Television International, Ltd. is the successor in interest to Defendant Visnews. Kogan Declaration, Ex. 35.

8. On April 29, 1992, rioting broke out in Los Angeles, including the area of Florence Avenue and Normandie Boulevard, after the announcement of the acquittals of four police officers accused of beating motorist Rodney King.

9. At the time of the Los Angeles Riots, LANS was under contract to KCOP Television, Channel 13 in Los Angeles to provide live video broadcasts of news events, which KCOP could rebroadcast, and also under contract to KNX News Radio for audio broadcasts. *See* Ex. 109. As a part of these contracts, however, LANS would retain

ownership of the copyright on all the videotape it shot. LANS never sells the copyright for videotape; it only licenses aspects of its copyrights for broadcasts.

10. Upon arrival at the intersection of Florence and Normandie, Mr. and Mrs. Tur noticed that there were no police present and that looting had begun. Mr. and Mrs. Tur began video and audio coverage, which was broadcast live over KCOP Television. Not only did they document the rioting and looting at that intersection, but they captured the events of certain attacks in particular on video, which are now the copyrighted videotapes at issue: *"Beating of Man in White Panel Truck,"* Ex. 26, and *"Beating of Reginald Denny,"* Ex. 25 (the "Video Works"). These were broadcast live on KCOP, with the narrative report supplied by Robert Tur, and the camera work done by Marika Tur.

11. Because the Video Works were broadcast live over KCOP Television, the demand for them from other news organizations seeking to license the tapes was immediate. Before the Turs had landed their helicopter, the news director at KCOP, Jeff Wald, was fielding calls from other news organizations who sought to obtain licenses to use the tapes. Mr. Wald was in contact with Mr. Tur in the helicopter to field inquiries. Mr. Wald informed all who inquired that LANS owned the copyright to the tapes, and that all licensing agreements would have to be through LANS. Bob Tur, for LANS, granted limited licenses to the National Broadcasting Company ("NBC") and the American Broadcasting Company ("ABC") to broadcast the Video Works in their news programming within hours after the incident.

12. Bob Tur wanted the Video Works to be seen widely for two reasons. As a reporter, he believed this was an important story that the public needed to know. As a businessman, he believed that if the Video Works were seen over national television, it could create a market for licenses throughout the country to television stations, independent news organizations and news magazines. He decided to license the videotape in a manner so he would not be in breach of the KCOP contract (which prohibited licenses to certain Los Angeles news stations without the explicit permission of KCOP) and still satisfy both goals.

13. LANS, on April 29, 1992, gave a restricted license, the terms of which are disputed, for the Video Works to NBC through an associate producer for NBC named Mike Austin.

14. Mr. Austin knew that KNBC had a helicopter shooting aerials of the developing L.A. Riots. He saw KNBC's footage from the NBC News L.A. Bureau monitor room and believed it to be inferior to that being shown live on KCOP. Watching the live video by the Turs on a monitor side-by-side with a monitor showing KNBC's coverage of the same incidents, he concluded that the Turs' tape was better because it began earlier, had better angles and greater pictures of Reginald Denny.

15. Mr. Tur testified, that, through Mr. Wald, he informed Mike Austin that NBC could license the Video Works for use on its news programs, including the *Today Show,* with certain restrictions. According to Mr. Tur, Mr. Austin was informed that the license was of 48 hours duration only, KCOP had to be credited, and the tape was for network use only and could not be distributed to overseas broadcasters or affiliates. Mr. Tur told Mr. Wald

that a reasonable price for NBC's oral license would be worked out later. This conversation with Mr. Wald took place while Mr. Tur was still on board the helicopter, filming and narrating live coverage of the L.A. Riots.

16. Mr. Austin, at the time a temporary production assistant for NBC News, testified that he heard the terms differently. He stated that no conditions or restrictions of any kind were communicated to him and that he was told only that he would later negotiate a reasonable price.

17. The Court finds that Mr. Austin's testimony on the subject of the terms and conditions of the license lacks credibility. His testimony was inherently implausible in some instances and internally contradictory in others. For example, upon examination by Plaintiff's counsel he testified that although he saw the live coverage by the Turs unfolding, he did not believe "time was of the essence" in obtaining the tape from KCOP. Yet, upon examination by Defendants' counsel, in an attempt to explain why he hurriedly wrote the inscription on the Video Works cassette label "See Mike Austin re conditions of use," Ex. 142, testified that timeliness was important because it was a breaking story. Also, with respect to his notation on the label "L.A. Rioting Aerials/From Bob Tur (KCOP-TV) L.A. News Service," Mr. Austin first testified it was made to distinguish the works "from other videos," but later testified that he used the word "aerials" because those were the only aerials he was aware of. Still later, he testified that he had been aware that NBC had shot other aerials at the same time as LANS, but they were inferior to LANS aerials. Finally, Mr. Austin's use of the term "conditions of use" on the label immediately upon receipt of the cassette belies his testimony at trial that there were no conditions of use for the tape. His subsequent explanation

that he thought that the requirement of later negotiating a price was a condition or conditions of use is not credible.

18. On the other hand, Mr. Tur's version of the "credit" issue is not supported by the other evidence adduced at trial. Judy Tur's contemporaneous log of communications concerning the licensing arrangements omits any reference to "credits" or "courtesies." Ex. 7. Furthermore, according to Heather Allan, Judy Tur did not mention credit to KCOP or LANS when she called at 11:30 p.m. the night of April 29. Ms. Allan's log supports her testimony. Ex. 143.

19. Given the circumstances surrounding the negotiation of this oral license, through a third party from a helicopter, in the rush and the heat of the L.A. Riots, for video depicting their violent beginnings, an inference could be drawn either way as to the issue of credit to KCOP as a condition of the license. It is not necessary to the Court's decision to make a finding on that issue, however, because the Court concludes, as both sides argued to prove diametrically opposed contentions, that the Visnews videotape of the copyrighted works bears the downstream in the form of the KCOP logo, Ex. 145, as does the version broadcast on the NBC *Today Show,* Ex. 101. Because Mr. Austin testified that he received a "clean feed" of the video works from KCOP, a fact undisputed in the record, and hand-delivered it to Ms. Allan, his supervisor, it is plain, as Mr. Tur testified, that someone at NBC for some reason placed the KCOP logo on the tape before it was broadcast as part of the NBC *Today Show* segment. The Court further finds that, even if credit was not explicitly discussed on the occasion of the negotiations for the Video Works, the restrictions Mr. Tur sought from Mr. Austin

were standard with NBC, except as to the 48-hour limitation, as Mr. Tur testified.

20. At approximately 11:30 the night of April 29, Judy Tur contacted Ms. Allan to inform her of certain restrictions on the use of the works. At 2:15 a.m. Pacific Standard Time Ms. Allan logged those restrictions on the L.A. Bureau monitor. Contrary to normal custom, neither the L.A. Bureau nor the N.Y. Bureau distributed a telex to inform all affiliates and subscribers of these restrictions. Ms. Allan did, however, go to the NBC Newsroom in L.A. to inform everyone there of the restrictions.

21. Plaintiff's Video Works were fed by satellite from NBC's L.A. Bureau to NBC's N.Y. Bureau at 2:20 a.m. Pacific Standard Time on April 30, 1992. This is reflected in Ms. Allan's log entry, Ex. 144. The Video Works were shown, as agreed by license, on NBC's *Today Show* the morning of April 30, 1992. The *Today Show* was fed by satellite from NBC in New York to its stations and network affiliates across the United States.

22. A news "feed" is a term in the communications industry which refers to any transmission, whether through satellite, microwave or hard wire, of video, audio, still image and text material for incorporation in a subscriber's newscasts or publications, at the subscriber's discretion. "Subscribers" are other news and information companies which incorporate news feeds into their broadcasts at their discretion. Subscribers do not include members of the general public. Visnews/Reuters made transmissions of the Video Works to the European Broadcasting Union News Exchange, Visnews Early Evening Feed to Europe, Reuters Television Japan Feed, Reuters

Television Latin America/North America Feed, and Reuters Television Asia Pacific Feed.

23. As of April 30, 1992, Visnews and NBC News Overseas, Inc. were parties to an existing television news supply agreement pursuant to which NBC News Overseas agreed to supply to Visnews and license Visnews to use news materials which appeared on the NBC News programs, including the *Today Show.*

24. On the morning of April 30, 1992, the Video Works were transmitted by fiber link from NBC's control room in New York to Visnews' New York Office. Visnews made a videotape copy of the Video Works as broadcast on the *Today Show.* The segment that Visnews copied included the selections from Plaintiff's two Video Works which Mr. Austin had previously copied at KCOP. Visnews transmitted Plaintiff's Video Works, via fiber link, to the New York office of the European Broadcast Union ("EBU"), a joint venture with Visnews and Reuters, which then made a videotape copy of the Video Works.

25. The Visnews/Reuters Defendants were not authorized by LANS to obtain the Video Works from NBC or to use them in any form. LANS did not license its Video Works to Visnews or any Reuters Defendant.

26. There is no direct evidence in the record as to the state of mind of the unidentified Visnews employee(s) who made the infringing copy of Plaintiff's work from the NBC feed. Nor is there any direct evidence in the record as to the state of mind of the EBU individual who made the infringing copy from the Visnews feed.

27. Given the absence of direct evidence, Plaintiff urges that the Court infer willfulness from (1) a prior

conversation between Marika Tur and Richard Wortman, Visnews' "top dog in L.A.," in which Wortman refused to pay several thousand dollars to LANS for a videotape of news events, saying that he would obtain it from NBC; (2) the prior course of conduct between Mr. Wortman on behalf of Visnews in which he regularly sought licenses or permission from LANS to use its videotaped news events that had appeared on KCOP Channel 13; (3) the fact that Visnews employees, including Wortman, could have viewed the restrictions on the broadcast of Plaintiff's work on the NBC monitors; and (4) the fact that the NBC *Today Show* as broadcast bore the downstream "KCOP."

28. Mr. Wortman's conversation with Ms. Tur, his acknowledgment that he had to seek permission from LANS on several occasions to rebroadcast its live videotape coverage of events, and his further acknowledgement to Mr. Tur that it "would be wrong" to use their tape without permission, in the absence of any evidence that he copied the Video Works or knew of or contributed in any way to their unlawful copying, is not evidence of Visnews' willfulness. To the contrary: the Court could easily infer that these statements and conduct reflect a desire to avoid infringing Plaintiff's copyright.

29. There is no evidence in the record that anyone from Visnews actually saw Ms. Allan's log notation, Ex. 143, on the monitor before the NBC *Today Show* news feed was sent at approximately 7:15 a.m. Eastern Standard Time on April 30, 1992. The Court cannot conclude that even if any Visnews employee had seen the log on the bureau monitor that it would have alerted him or her that copying the feed onto a video cassette would be an infringement of copyright.

30. With respect to Plaintiff's last argument, it can be inferred that whoever at Visnews and EBU made the copies of the NBC *Today Show* segment that included Plaintiff's works did know that the feed contained a downstream that credited KCOP for the production. Mr. Tur testified that the downstream conveys that that portion of the tape belongs to an entity other than NBC; and that it would or should alert others who wanted a copy of the tape as to its true ownership. However, Ms. Allan testified that the downstream would not necessarily mean that there were restrictions on the use of the tape. In this case, there existed a news supply agreement between NBC News Overseas and Visnews which could reasonably lead a Visnews employee who saw the downstream to believe that while the tape was owned by KCOP or that KCOP was the appropriate party to contact for a license to use the tape, his or her copying of the tape would not be an infringement of copyright.

31. Further, although both Messrs. Austin and Wortman knew that broadcasting the Video Works required LANS' approval in order to avoid a violation of copyright, there is no evidence in the record to suggest that either Visnews or EBU believed it did not have that approval when the infringing copies were made, or acted recklessly under the circumstances.

32. Thus, this Court finds that Plaintiff has not met its burden of proving that Visnews copied Plaintiff's works with knowledge that its conduct constituted copyright infringement or that Defendants acted in reckless disregard of Plaintiff's copyrights.

33. Nor have Defendants met their burden of proving that Visnews acted with a good faith and reasonable

belief in the innocence of its conduct. It may equally be inferred from Ms. Allan's testimony that the presence of the downstream, if viewed by Visnews, could indicate that there were in fact restrictions on any further use of the copyrighted works, and lead a reasonable person to inquire whether copying the feed would infringe a copyright held by KCOP or by another.

34. There is no evidence in the record as to what became of the videocassettes, although copies of them were introduced as Ex. 145, the PAL version (for European broadcast), and Ex. 117, the NTSC (for American broadcast).

35. Ex. 145, the PAL or European version, is the authentic version of the Video Works and bears a downstream in the form of the KCOP logo.

36. The "slate" on Ex. 143 indicates that it was used either to further transmit the Video Works or as the index for storage and retrieval of the copy of the infringing videotape within the Reuters library. In neither case is the slate relevant to the Court's decision.

37. In 1992 LANS earned between 50-60% of its income from sales of licenses of live videotape material and stock videos thereof.

38. LANS incurs significant expenses in conducting its business, not all of which are directly related to the expenses incurred, and thereby saved by Defendants, in producing the Video Works. These expenses include the approximate $1 million cost of the helicopter, the costs of operating the helicopter, which during the L.A. Riots was greater than $588 per hour, investment in the tape and the videocamera equipment and employee costs.

39. The LANS helicopter was damaged in the approximate amount of $134,000 during filming of the Riots.

40. Near the time LANS created the Video Works, it charged ABC and CBS $3500 for licenses bearing the same restrictions as the NBC license. Later it licensed the works domestically with various restrictions and durations for amounts ranging from $5000 to $6500, Ex. 30.

41. Ms. Tur testified that she would charge $250,000 for an unlimited domestic license of the works. She also testified that she would not actually license the works under such conditions because it would substantially affect their market.

42 An unauthorized airing of one of the Video Works by an entity otherwise licensed to use the work would result in a $10,000 liquidated damage figure. Ex. 30.

43. With respect to the Video Work "*Beating of Reginald Denny,*" LANS secured between $250,000-300,000 in license fees. The demand for "*Beating of Man in White Panel Truck*" was less. This is also evidenced by the first three license agreements in Ex. 30, which each concerns the licensing of the Denny tape specifically. Two of these agreements charge a fee of $5000; the third charges $6500.

CONCLUSIONS OF LAW

1. This is an action for copyright infringement arising under the Copyright Act, 17 U.S.C. § 101 *et seq.* Plaintiff alleges that Defendants infringed its copyright by copying the Video Works and by distributing the Video Works in the United States and abroad.

2. Federal jurisdiction and venue are invoked upon the grounds that this is a copyright action under 17 U.S.C. § 101 *et seq.* of which the Federal Court has exclusive jurisdiction under 28 U.S.C. §§ 1331 and 1338(a). Venue is based upon residence within the Central District of California under 28 U.S.C. § 1400(a).

3. On July 22, 1996, this Court granted Defendants' Motion for partial summary judgment and determined the following legal issues:

> (a) Defendants are not liable under American copyright law for any damages that may have arisen as a result of alleged extraterritorial infringements as the result of a domestic infringement of the Video Works. This is a clarification of language contained at page 2 of the Court's Order which is more fully explained at page 6 of that Order. The transmissions of the Video Works from Visnews and EBU to Europe did not violate the 1976 Copyright Act because the transmissions were not completed until they were received abroad. Thus they do not constitute domestic infringements within the reach of the United States copyright laws. *Subafilms, Ltd. v. MGM-Pathe Communications,* 24 F.3d 1088, 1091 (9th Cir.1994).
>
> (b) Visnews made a videotape copy of the Video Works; this is the only act that is supported by admissible evidence that demonstrates a violation of LANS' United States copyright by Visnews.
>
> (c) Visnews is also contributorily liable for the infringement of the United States copyright law that EBU committed when EBU made a videotape copy of the Video Works in New York

City, New York, after receiving it via fiber link from Visnews.

(d) The Reuters Defendants are not liable as contributory infringers for the infringement by Visnews when Visnews made a videotape copy of the Video Works in New York City.

(e) There is no evidence that Visnews' fiber link transmission to EBU was a public performance or a distribution so as to be in violation of section 106 of the Copyright Act.

(f) Although the fair use doctrine does not preclude Defendants' liability for domestic infringement, LANS may not recover actual damages because it did not submit admissible evidence that any unauthorized uses of the Video Works are attributable to any of Defendants' activities that infringe United States copyright law.

4. Plaintiff's copyrighted videos are protected under 17 U.S.C. § 106. The use of Plaintiff's works – the Visnews and EBU reproduction of the copyrighted works into videotape copies – is a violation of Plaintiff's copyright. Plaintiff may elect either statutory damages or actual damages under 17 U.S.C. § 504. Plaintiff has selected statutory damages.

5. Plaintiff has not sustained its burden of proving that the infringement was committed willfully, and thus is not entitled to increased statutory damages pursuant to 17 U.S.C. § 504(c)(2).

6. Defendants have not sustained their burden of proving that Visnews and/or EBU were not aware and had

no reason to believe that their acts constituted an infringement of copyright, and thus are not entitled to the reduction in statutory damages specified in 17 U.S.C. § 504(c)(2).

7. Plaintiff is entitled to "an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $500 or more than $20,000 as the court considers just." 17 U.S.C. § 504(c)(1).

8. In determining the award of statutory damages "the court's conception of what is just in the particular case, considering the nature of the copyright, the circumstances of the infringement and the like, is made the measure of the damages to be paid . . . [T]he court's discretion and sense of justice are controlling . . . [within the prescribed statutory limitations . . .]. The statutory rule, formulated after long experience, not merely compels restitution of profit and reparation for injury but also is designed to discourage wrongful conduct. . . . Even for uninjurious and unprofitable invasions of copyright the court may, if it deems it just, impose a liability within statutory limits to sanction and vindicate the statutory policy." *F.W. Woolworth Co. v. Contemporary Arts,* 344 U.S. 228, 232, 73 S.Ct. 222, 225, 97 L.Ed. 276 (1952) (citations omitted); *see Peer Int'l Corp. v. Pausa Records, Inc.,* 909 F.2d 1332, 1336-37 (9th Cir.1990); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.04[B][1][a] at 14-50 (1995) (hereinafter "Nimmer") ("the determination of statutory damages within the applicable limits may turn upon such factors as 'the expenses saved and profits

reaped by the defendants in connection with the infringements, the revenues lost by the plaintiffs as a result of the defendant's conduct, and the infringer's state of mind. . . .").

9. Examining the nature of the copyrighted works at issue, the Court rejects Defendants' argument that the Video Works are more akin to a product of the "sweat of the brow" and therefore undeserving of full copyright protection under *Feist Publications v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 353-54, 111 S.Ct. 1282, 1291-92, 113 L.Ed.2d 358 (1991). The Ninth Circuit laid that suggestion to rest when it held that similar raw videotapes involved sufficient creativity and intellectual input to merit copyright protection as "original works of authorship." *Los Angeles News Service v. Tullo,* 973 F.2d 791, 793 (9th Cir.1992).

10. The Court has previously found in weighing the factors that determine whether the infringements were a "fair use" that the works were factual in nature and published before the infringements. Indeed, the evidence in this case indicates that the works were so widely published that every person in America could have seen them on one of the three networks that obtained licenses from Plaintiff in the 48 hours following their creation – a fact that minimizes their ensuing value.

11. The nature and value of the copyrighted works must be considered separately with respect to each of the works. "*Beating of Reginald Denny*" plainly enjoyed a greater and more enduring demand than "*Beating of Man in White Panel Truck.*" Because of the creative input by the Turs, the latter was sought after by NBC, even when NBC

had its own live videotape of the same incident. See Findings of Fact No. 14.

12. The Turs' creation of such works is of great public benefit and should be encouraged. To encourage the creation of such original works, the Turs must be allowed to profit from them, without the concern that expediency, exigent circumstances or the very nature of the fast-breaking news-gathering business will deprive them of potential profits from those works. Statutory damages are designed to fulfill this goal of the Copyright Act, and are particularly necessary to deter what may be at most careless infringement by major news-disseminating organizations whose business it is to supply audiovisual news material worldwide for a fee.

13. Therefore, the Court concludes that with respect to *"Beating of Reginald Denny,"* LANS is entitled to an award of statutory damages for each infringement of $20,000.

14. With respect to *"Beating of Man in White Panel Truck,"* LANS is entitled to an award of statutory damages for each infringement of $10,000.

15. At the outset of the trial, the parties stipulated that there were two copyrighted works at issue, and that each was infringed once. Each side submitted proposed Findings of Fact and Conclusions of Law that calculated statutory damages on the basis of four infringements. *See also* Trial Brief by Defendants dated September 23, 1996 at 20/1-5.

16. It was not until closing argument, in an attempt to minimize the total award of statutory damages, that Defendants suggested that statutory damages should be

calculated with respect to one work, because the two works were taken from one continuous tape, or that Visnews and EBU were liable jointly and severally for each of the infringements, and thus the number of infringements subject to an award of statutory damages should be one. The Court finds that Defendants waived these arguments by failing to raise them before the time of closing argument.

17. In any event, with respect to the "continuous tape" argument, the United States Copyright Office issued Certificates of Registration with respect to each separate work at issue. Exs. 2 and 3. This creates a *prima facie* presumption both as to the validity and copyrightability of each of the works. *See* Nimmer § 12.11 [3] at 12-163, 171-74. Defendants have not rebutted that presumption.

18. Moreover, even if the issue of joint and several liability had not been waived, it does not appear that the argument, if successful, would have absolved Visnews of liability for two infringements. While it may be that Visnews and EBU are jointly and severally liable for the second videotape, Visnews is individually liable for the making of the first videotape. Therefore, Visnews would appear to be liable for two separate acts of infringement: first, its own; and, second, the act by EBU to which it contributed. EBU, however, would not be jointly and severally liable for the Visnews independent act of infringement. It would therefore appear that the plain language of Section 505 would not limit the number of infringements subject to the statutory damages award to one.

19. Therefore, Plaintiffs are entitled to a statutory damage award pursuant to 17 U.S.C. § 504(c)(1) in the

amounts of $40,000.00 for the two infringements of the "*Beating of Reginald Denny*" and $20,000.00 for the two infringements of "*Beating of Man in White Panel Truck*"; a total award of $60,000.00.

20. The Court reserves ruling on the question of which party, if any, is the prevailing party under 17 U.S.C. § 505 and thus does not award attorney's fees and costs at this time. Each party is to file an initial brief on that issue, together with a proposed judgment in this matter, on or before October 14, 1996. Responsive briefs are to be filed on or before October 21, 1996. The Court will deem the matter submitted without the necessity for oral argument, unless it notifies the parties otherwise.

IT IS SO ORDERED.

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942 F.Supp. 1265

United States District Court,
C.D. California.

LOS ANGELES NEWS SERVICE, Plaintiff,
v.
REUTERS TELEVISION INTERNATIONAL, LIMITED; Visnews International (USA), Limited; Reuters America Holdings, Inc.; Reuters America, Inc., Defendants.

No. CV-95-1073-KMW (Ex).

July 22, 1996.

William A. Bergen, Law Offices of William A. Bergen, Auburn, CA, for Plaintiff Los Angeles News Service.

Louis P. Petrich, Robert S. Gutierrez, Leopold, Petrich & Smith, A Professional Corporation, Los Angeles, CA, Patricia Duncan, Burbank, CA, for Defendants Reuters Television International, Limited; Visnews International (USA), Limited; Reuters America Holdings, Inc.; Reuters America, Inc.

ORDER GRANTING DEFENDANTS MOTION FOR SUMMARY JUDGMENT IN PART AND DENYING IT IN PART

WARDLAW, District Judge.

Plaintiff Los Angeles News Service ("LA News") has sued Defendants Visnews International (USA), Limited ("Visnews"), Reuters Television International, Limited, Reuters America Holdings, Inc., and Reuters America, Inc.

("Reuters" or "the Reuters defendants").[1] It alleges that they violated the Copyright Act and the Federal Communications Act by copying its video footage of the Los Angeles riots that occurred after the acquittal of the police officers accused of beating Rodney King and by distributing it in the United States and abroad.

Visnews and Reuters (collectively, "Defendants") have filed a motion for summary judgment, arguing that they cannot be liable for extraterritorial copyright infringement and that the fair use doctrine precludes a finding of domestic copyright infringement. They also argue that they did not violate the Federal Communications Act because they did not intercept a satellite or radio signal. The Court **GRANTS** this motion in part and **DENIES** it in part. It holds that Defendants are not liable under American copyright law for damages that arise extraterritorially as the result of a domestic infringement. However, it finds that the fair use doctrine does not preclude their liability for the domestic infringement. Although LA News has proven domestic liability, it may not recover actual damages because it has not submitted admissible evidence that any unauthorized uses of its works are attributable to Defendants' infringing activities. Finally, the Court holds that Defendants did not intercept a satellite signal, so they did not violate the Federal Communications Act.

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[1] Despite the Court's request at oral argument that the parties distinguish among the Reuters defendants, they did not do so. Thus, the Court does not distinguish among them here.

I. BACKGROUND

A. Facts and Contentions

1. Filming of Riots

Robert and Marika Tur are freelance reporters who own LA News. Compl. ¶ 8. LA News produces video and audio tape recordings of newsworthy events and licenses them for profit. *Id.*

During the Los Angeles riots in April 1992, the Turs filmed four persons being beaten. They have entitled the videotape footage of the beatings: "Beating of Reginald Denny," "Beating of Man in White Panel Truck," "Beating of Man in Brown Hatchback with Rescue," and "Japanese Man in Brown Bronco Attacked by Rioters." They registered this footage with the Register of Copyrights. *Id.* ¶ 10. Of course, only the first two videotapes are at issue here.

2. Defendants Obtain Riot Footage

National Broadcasting Company, Inc. ("NBC") obtained Robert Tur's permission to broadcast "Beating of Reginald Denny" and "Beating of Man in White Panel Truck." Robert Tur Depo. I at 99:9-99:14; *id.* at 106:12-18.[2] It used this footage on the *Today* show. Allan Decl. ¶ 4.

In April 1992, Visnews, a joint venture of Reuters Television Limited, NBC, and the British Broadcasting Company, had a news supply agreement with NBC News Overseas, Inc. ("NBC Overseas"). Smith Decl. ¶ 3. Under

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[2] Deposition I is Robert Tur's deposition in his litigation against NBC. Deposition II is his deposition in the instant litigation.

this agreement, NBC Overseas supplied Visnews with news materials, including NBC news programs that were actually telecast or had been cleared for telecast. *Id.*

When NBC broadcast the *Today* show featuring the LA News footage to its affiliates, it simultaneously transmitted the show via fiber link to Visnews' New York office. *Id.* ¶ 4. Visnews made a videotape copy of the parts of "Beating of Reginald Denny" and "Beating of Man in White Panel Truck" that NBC had included in the *Today* broadcast. *Id.* It transmitted the footage on the videotape copies to its subscribers in Europe and Africa on its early evening feed. Bergen Decl. Ex. 1 at # 7. It also transmitted copies of this videotape via fiber link to the New York City offices of the European Broadcast Union ("the Union"). Smith Decl. ¶ 5.

The Union made a videotape copy of the transmission from Visnews. In turn, it transmitted the video footage via satellite to Reuters' London branch. *Id.* ¶ 6. Reuters admits that it gave some of its subscribers copies of the LA News riot footage. Bergen Decl. Ex. 1 at # 5.

LA News claims that it did not authorize Visnews or Reuters to obtain "Beating of Reginald Denny" or "Beating of Man in White Panel Truck" from NBC.

3. Attempts to Sell LA News' Riot Footage

LA News retained Phil Ramey to market its copyrighted riot footage in Europe and Asia. Ramey Decl. ¶ 3. He solicited French German, Italian, Spanish, British, and Scandinavian newspapers. *Id.* ¶ 6. He opines that he was unable to sell LA News' photos and videotapes to them because they were using video-grabs of the LA News

footage that Reuters included in its transmissions to its subscribers. *Id.* A video-grab is a still shot taken from film footage. *Id.*

LA News has also submitted hearsay evidence that *USA Today* obtained and used video-grabs of LA News' riot footage from Reuters. Tur Decl. ¶ 2.[3] Additionally, Robert Tur says that personnel from Canal Plus, a French company, and ITV, an independent television station in the United Kingdom, told him that Reuters was selling copies of LA News' footage of the attack on Reginald Denny. Robert Tur Depo. II at 74:1-77:5.

LA News has sued Visnews and Reuters, alleging (1) copyright infringement; (2) willful copyright infringement; and (3) violation of Federal Communications Commission statutes and regulations.

B. The Instant Motion

Defendants have filed a motion for summary judgment, arguing that (1) extraterritorial infringement cannot violate American copyright laws; (2) the fair use doctrine precludes a finding of copyright infringement; (3) LA News has no admissible evidence that any unauthorized uses of its copyrighted works are attributable to their infringing activities; and (4) they did not violate the Federal Communications Act because they did not intercept a satellite or radio signal.

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[3] Tur states that he phoned the photo editor of *USA Today* and asked why the paper was running a video-grab from LA News' footage and where it obtained the video-grab. He claims that the photo editor told him that *USA Today* obtained the video-grab from Reuters.

II. SUMMARY JUDGMENT STANDARD

Under Rule 56 of the Federal Rules of Civil Procedure, summary judgment is proper if there are not genuine issues of material fact and the moving party is entitled to judgment as a matter of law. Fed.R.Civ.P. 56(c). A party resisting summary judgment has an affirmative obligation to bring forward evidence "on which the jury could reasonably find for [the non-moving party]." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252, 106 S.Ct. 2505, 2512, 91 L.Ed.2d 202 (1986). A mere scintilla of evidence will not suffice. "Where the record taken as a whole could not lead a rational trier of fact to find for the nonmoving party, there is no 'genuine issue for trial.'" *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S.Ct. 1348, 1356, 89 L.Ed.2d 538 (1986). The non-moving party must "go beyond the pleadings and show 'by her own affidavits, or by the depositions, answers to interrogatories, or admissions on file' that a genuine issue of material fact exists." *Hopkins v. Andaya,* 958 F.2d 881, 885 (9th Cir.1992) (*quoting Celotex Corp. v. Catrett,* 477 U.S. 317, 324, 106 S.Ct. 2548, 2553, 91 L.Ed.2d 265 (1986)).

III. COPYRIGHT INFRINGEMENT CLAIMS

Defendants argue that LA News cannot prevail on its copyright claims as a matter of law because (1) the Copyright Act has no extraterritorial effect and (2) the fair use doctrine shields them from liability. They also argue that LA News cannot prove actual damages, so it can only collect statutory damages.

A. Extraterritorial Infringement

Defendants argue that they cannot be liable under the Copyright Act for damages arising from extraterritorial infringement. The Ninth Circuit recently held that United States copyright laws do not have extraterritorial effect, so infringing actions that occur entirely outside the United States are not actionable under the Copyright Act. *Subafilms, Ltd. v. MGM-Pathe Communications,* 24 F.3d 1088, 1091 (9th Cir.1994). Specifically, the *Subafilms* court found that a defendant who domestically authorizes extraterritorial infringement cannot be contributorily liable for the extraterritorial act. *Id.* at 1092, 1098. It reasoned that an extraterritorial act does not violate American copyright laws because they do not forbid extraterritorial infringement. Therefore, a defendant who domestically authorizes extraterritorial infringement is not authorizing an illegal act.

LA News notes that the *Subafilms* court did not reach the issue of whether copyright holders are entitled to damages under the Copyright Act when they arise extraterritorially as the result of a domestic infringement. *Id.* at 1099. It asserts that Defendants are liable under the Copyright Act for extraterritorial damages that arose from the domestic infringement.

LA News correctly argues that the *Subafilms* opinion does not foreclose it from using the Copyright Act to recover all damages arising extraterritorially. Professor Nimmer has explained that copyright holders acquire an equitable interest in infringing works produced in the United States as soon as they come into being. 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.05, at 14-96 (1996). The "work is thereafter impressed

with a constructive trust so that the plaintiff is entitled to profits accruing from the exploitation of the work anywhere in the world." *Id.* Thus, if a defendant makes videotapes of copyrighted video footage in the United States and sells these tapes in Europe, the copyright holder would be entitled to the profits from the European sales under the Copyright Act, as damages flowing from the domestic infringement, as opposed to any "extraterritorial infringement."

However, if American "copyright laws do not have any extraterritorial operation, there [can be] no cause of action and hence no right to a recovery of damages under the Copyright Act for infringements occurring outside of the United States." *Id.* In the instant case, any damages arising extraterritorially are the result of extraterritorial infringement. If the Reuters subscribers in Europe and Africa used the copyrighted footage and refused to buy it from LA News, they received it on Visnews' early evening feed or on a feed that Reuters initiated after it received a satellite transmission from the Union. The transmissions from Visnews and the Union did not violate the Copyright Act. *See Allarcom Pay Television Ltd. v. General Instr. Corp.*, 69 F.3d 381, 387 (9th Cir.1995) (holding that a defendant who transmitted copyrighted works via satellite from the United States to Canada did not complete an infringement in the United States and stating that "the potential infringement was only completed in Canada once the signal was received and viewed"). Therefore, Defendants are not liable under the Copyright Act for damages arising extraterritorially. This holding does not preclude LA News from recovering damages for extraterritorial infringement. It can seek a remedy for this infringement under the applicable foreign law.

B. Domestic Infringement

1. Visnews

Visnews argues that LA News cannot show that it completed any infringing acts within the United States because the fiber link transmissions from NBC to it and from it to the Union do not violate the Copyright Act. It does not analyze whether the videotape that it made from the fiber link transmission violates the Copyright Act.

To violate the Copyright Act, a defendant must:

> (1) reproduce the copyrighted work in copies or phonorecords;
>
> (2) prepare derivative works based upon the copyrighted work;
>
> (3) distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of . . . motion pictures and other audiovisual works, . . . perform the copyrighted work publicly;
>
> (5) in the case of . . . motion pictures and other audiovisual work, . . . display the copyrighted work publicly; [or]
>
> (6) in the case of sound recordings, . . . perform the work publicly by means of a digital audio transmission.

17 U.S.C. § 106.

a. Videotapes

By making a videotape of the fiber link transmission, Visnews reproduced the copyrighted work in a copy, thereby violating section 106. Copies "are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." *Id.* § 101. The videotape is a material object. Visnews mechanically fixed the riot footage to it. By placing the videotape in a VCR, a viewer can perceive the footage.

Visnews reproduced LA News' copyrighted riot footage on a videotape. The videotape satisfies the statutory definition of a copy. Thus, by making the videotape, Visnews violated LA News' copyright. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 449, 104 S.Ct. 774, 792, 78 L.Ed.2d 574 (1984) (holding that individual consumers who taped television programs for non-commercial use did not infringe the copyrights on the programs but noting that if commercial actors made videotape copies of television programs for a profit-making purpose, "such use would be presumptively unfair").

Visnews is also contributorily liable for the infringement that the Union committed when it made a videotape of the footage from the fiber link transmission. A defendant is contributorily liable for infringement when it has actual or constructive knowledge of the infringement and it materially contributes to the infringing activity. *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845 (11th Cir.1990); *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 160 (3d

Cir.1984). Visnews knew that the Union would have to make a videotape of the fiber link transmission in order to use it. Furthermore, Visnews materially contributed to the infringement by transmitting the copyrighted footage to the Union.

b. Public Performance

LA News has not adduced sufficient evidence to show that Visnews' fiber link transmission to the Union violated section 106 because it was a public performance. A performance is public if it occurs "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." 17 U.S.C. § 101. Alternatively, a performance is public if someone "transmit[s] or otherwise communicate[s] a performance or display of the work to a place [open to the public or where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered] or to the public, by means of any device or process." *Id.* "[T]he fact that only an insubstantial number of persons actually attend a performance will not derogate from its character as a public performance if under the restrictions imposed a substantial number of persons outside of a normal family circle, and its social acquaintances could have attended." 2 David Nimmer & Melville B. Nimmer, *Nimmer on Copyright* § 8.14[C], at 8-172 (1996). Additionally, the transmission must be received beyond the place from which it is sent. *Columbia Pictures Indus. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278, 282 (9th Cir.1989).

The fiber link transmitted the footage from Visnews' New York office to the Union's New York office. The

transmission was received beyond the place from which it was sent.

A fiber link is a secure closed digital circuit between the transmitting and receiving parties. Lokey Decl. ¶ 3. Visnews argues that its "transmissions were by physical link rather than by broadcasts over the airwaves, [so] they cannot be deemed to be 'public' performances." Motion at 21. This argument flies in the face of section 101's plain language that transmittal may be "by means of any device or process." 17 U.S.C. § 101; *see also On Command Video Corp. v. Columbia Pictures Indus.*, 777 F.Supp. 787, 789-90 (N.D.Cal.1991) (finding a violation of the Copyright Act where a system in which video cassette players located in a hotel equipment room and wired to guest rooms transmitted movies; the system did not involve a broadcast over airwaves).

However, LA News has not submitted evidence about the location of the video monitor on which the Union receives fiber link transmissions, so it cannot show that the performance was public. If the monitor is located in a small engineering room or intake room, only one or two people – an insubstantial number – could view it. If it is in a large room where many people work, any number of the Union's employees, who would not represent a normal circle of a family, could have received and seen the transmission. Because LA News has not explained where the Union's monitor is located, the Court has no evidence on which to find that a substantial number of people could have seen the copyrighted footage.

LA News also fails to show that the fiber link transmission violates section 106 because it is a distribution. A distribution is the dissemination of copies of a work to the

public. *Agee v. Paramount Communications, Inc.*, 59 F.3d 317, 325 (2d Cir.1995). The fiber link transmitted a copy of the riot footage to the Union office. However, as it has stated, the Court has no evidence before it on which it could find that a substantial number of people in the Union office could have viewed the riot footage.

2. The Reuters Defendants

A triable issue of fact exists about whether the Reuters defendants are liable for copyright infringement. LA News' evidence that the Reuters defendants infringed its copyright is Robert Tur's deposition testimony that he contacted someone whose name he believed to be Bob Tschnitzer, who was a Reuters photo editor in Washington, D.C.[4] Robert Tur Depo. II. at 63:11-64:15. Tschnitzer allegedly told him that "[Reuters] had taken [LA News'] photos off the television screen." *Id.* at 65:16-18. When Tur told him that this use was copyright infringement, he stated, "Well, we can use anything we want." *Id.* at 65:19. Tur later realized that he had misunderstood the photo editor's name and that Tschnitzer was actually Robert Schnitzlein. He came to this realization when he heard Schnitzlein's voice during a telephone deposition. Tur Decl. ¶ 4.[5]

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[4] LA News' other "evidence" that the Reuters defendants infringed its copyright in the United States is Robert Tur's conversation with the photo editor from *USA Today*. Tur said that the photo editor said that *USA Today* obtained a video-grab from Reuters. His recounting of what the photo editor said is hearsay and is therefore inadmissible.

[5] The Reuters defendants object to this evidence on the ground that Tur's attorney did not tell them that Tur was monitoring the deposition.

(Continued on following page)

The Reuters defendants claim that Tur contradicts his deposition testimony in his declaration, so neither testimony is admissible. In his deposition, Tur states that Schnitzlein told him that Reuters was using video footage. In his declaration, Tur states that Schnitzlein told him that Reuters was using still photos. This testimony is not necessarily contradictory. Schnitzlein could have told Tur that Reuters was using both video footage and stills. Thus, the Court overrules this objection.

Because the Reuters defendants claim that they did not send any LA News' footage or stills to their subscribers in the United States, Tur's testimony creates a triable issue of fact about whether they infringed the Copyright Act.[6]

They argue that this failure to inform violates section 631 of the California Penal Code, which prohibits wiretapping and eavesdropping. *See* Cal.Pen.Code § 631 (West 1988). Although California courts have held that this section prohibits one party to a conversation from permitting another person to monitor the conversation without the consent of the other party to the conversation, the policy underpinning these decisions is inapposite in this case. *See Ribas v. Clark,* 38 Cal.3d 355, 212 Cal.Rptr. 143, 696 P.2d 637 (1985). The *Ribas* court explained that "secret monitoring denies the speaker an important aspect of privacy of communication – the right to control the nature and extent of the firsthand dissemination of his statements." *Id.* at 146, 696 P.2d at 640-41. Schnitzlein had no legitimate expectation that he could deny Tur access to the firsthand dissemination of his statements because Tur had legal access audio tapes and transcripts of the deposition. *See id.* (implying that a tape of a conversation is a firsthand dissemination). Thus, when Tur monitored the deposition, he did not violate Schnitzlein's right of privacy.

[6] The Reuters defendants are not contributorily liable for Visnews' infringement. No evidence exists that they knew or should have known that Visnews infringed LA News' copyright. They were aware that the Los Angeles riots were a major news event. They likely presumed that

(Continued on following page)

C. Fair Use Doctrine

Defendants contend that even if they are liable under the Copyright Act, the fair use doctrine shields them from liability. They assert that LA News is collaterally estopped from arguing that the fair use doctrine does not apply because Judge Gadbois granted summary judgment against LA News on fair use grounds in its action against KCAL-TV for infringing the same videotapes at issue in this case.

1. Overview of the Fair Use Doctrine

"Any individual may reproduce a copyrighted work for a 'fair use'; the copyright owner does not possess the exclusive right to such a use." *Sony Corp.*, 464 U.S. at 433, 104 S.Ct. at 784. Section 107 of the Copyright Act lists several uses of copyrighted material that exemplify fair uses; it includes news reporting in this list. 17 U.S.C. § 107. It also sets forth four factors that courts must consider when determining whether a particular use is a "fair use":

> (1) The purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes;
>
> (2) The nature of the copyrighted work;

NBC reporters and cameramen covered it, and they had a license to use NBC coverage. *See* Bergen Decl.Ex. 9 (memo from Reuters employee expressing surprise at Tur's allegations of infringement because riot footage came from NBC and NBC had not sent out an advisory against using the footage).

(3) The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) The effect of the use upon the potential market for or value of the copyrighted work.

Id.

Where the district court "has found facts sufficient to evaluate each of the statutory factors considered in determining fair use," the question of whether a challenged use is fair is a matter of law. *Los Angeles News Service v. Tullo,* 973 F.2d 791, 796 (9th Cir.1992).

2. Collateral Estoppel

Defendants' argument that the doctrine of collateral estoppel should preclude LA News from arguing that the fair use doctrine does not apply is persuasive at first blush. The same tapes were at issue in Judge Gadbois' case. *See* Petrich Decl.Ex. A. LA News has already had an opportunity to explain why the fair use doctrine should not apply. Continuing to relitigate this issue wastes judicial resources.

However, Defendants have not submitted evidence that KCAL used the same portions of the tapes they used. Furthermore, they are not clearly analogous to KCAL because KCAL actually reports the news while they collect reported news and resell it. KCAL and Defendants are not interchangeable, and LA News' arguments about their actions are not necessarily interchangeable. Thus, the collateral estoppel doctrine does not apply.

3. The Purpose and Character of the Use

Defendants argue that their use of the tapes was fair because their purpose was news reporting. In response, LA News contends that a finding that their purpose was news reporting does not end the inquiry because they also had a commercial purpose that tends to negate a finding of fair use.

a. News Reporting

The purpose and character of the use is the first factor a court examines when determining whether a use is fair. The "central purpose" of this investigation is to determine whether the new work "merely supersedes the objects of the original creation . . . or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks in other words, whether and to what extent the new work is 'transformative.'" *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579, 114 S.Ct. 1164, 1171, 127 L.Ed.2d 500 (1994). The more transformative a work the more likely it is a fair use. *Id.* "News reporting is one of the examples enumerated in § 107 to 'give some idea of the sort of activities the courts might regard as fair use under the circumstances.'" *Harper & Row Publishers, Inc. v. Nation Enterprises,* 471 U.S. 539, 561, 105 S.Ct. 2218, 2231, 85 L.Ed.2d 588 (1985).

Defendants have superficial similarities to "news clipping services," which do not have a news reporting purpose. *See Los Angeles News Service,* 973 F.2d at 797 (holding that defendant Audio Video Reporting Services, a "news clipping service" that monitored television news programs, recorded them on videotape, and sold copies of

the tapes to interested individuals did not have a news reporting purpose). Defendants monitor news programs, record the news information, and resell it to other news reporting organizations. However, the resale to news reporting organizations distinguishes them from "news clipping services." Their sole purpose is to facilitate news reporting while a "news clipping organization" archives old reports and sells them to researchers. Thus, they have a news reporting purpose.

However, their use of news footage is not very transformative. They do not sequence photos into a news story, add voiceovers explain the footage, or include editorial comment. They merely copy footage and transmit it to news reporting organizations that transform the footage.

b. Commercial

The fact that a use was "commercial as opposed to nonprofit is a . . . factor that tends to weigh against a finding of fair use." *Harper & Row Publishers,* 471 U.S. at 562, 105 S.Ct. at 2231. However, "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Campbell,* 510 U.S. at 579, 114 S.Ct. at 1171.

Because Defendants are not making a transformative work and are using LA News' footage for a commercial purpose, this factor weighs against them.

4. The Nature of the Copyrighted Work

The next factor the Court must examine is the nature of LA News' footage. "Beating of Reginald Denny" and

"Beating of Man in White Panel Truck" are factual, rather than fiction or fantasy. "The scope of fair use is greater when 'informational' as opposed to more 'creative' works are involved." *Hustler Magazine, Inc. v. Moral Majority, Inc.,* 796 F.2d 1148, 1153-54 (9th Cir.1986); *see also Los Angeles News Service,* 973 F.2d at 798 (same). Moreover, the fact that LA News published the footage before Defendants used it weighs in their favor. *See Harper & Row Publishers,* 471 U.S. at 564, 105 S.Ct. at 2232 (holding that "the scope of fair use is narrower with respect to unpublished works"). Thus, this factor weighs in favor of Defendants.

5. The Amount and Substantiality of the Use

The third factor the Court must consider is the amount and substantiality of Defendants' use. They contend that this factor weighs in their favor because they used only a small portion of the total amount of LA News' footage. However, copying only a small portion of a copyrighted work may exceed fair use if the material is taken from the "heart" of the work. *Los Angeles News Service,* 973 F.2d at 798 (citing *Harper & Row Publishers,* 471 U.S. at 564-65, 105 S.Ct. at 2232-33).

"Beating of Reginald Denny" runs for approximately four minutes. However, LA News asserts that the core or "heart" of the tape, which is the actual attack on Reginald Denny, lasts for only about forty-five seconds. It did not provide any information about the playing time or excerpts of "Beating of Man in White Panel Truck." As the Ninth Circuit has noted, however, "[i]n preparing a newscast, a television station selects the most effective and

illustrative shots from the raw footage available." *Id.* at 798. Visnews copied footage from an NBC newscast. Because NBC had edited the LA News footage and selected the "heart" of it, this factor weighs against Visnews. Presumably, the Reuters defendants were using footage from the NBC newscast or another newscast, so this factor also weighs against them.

6. The Effect of the Use Upon the Market

The fourth fair use factor "requires courts to consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also 'whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market' for the original." *Campbell,* 510 U.S. at 590, 114 S.Ct. at 1177 (*quoting* 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.05[A][4], at 13-102.61). Additionally, courts must consider harm to the market for derivative works. *Harper & Row Publishers,* 471 U.S. at 568, 105 S.Ct. at 2234-35. The Supreme Court has stated that "[t]his last factor is undoubtedly the single most important element of fair use." *Id.* at 566, 105 S.Ct. at 2233.

Defendants argue that their use of the Denny videotape did not "harm" any market for the tape. Their evidence for this argument is that Judge Gadbois found that LA News entered into more than a dozen additional licenses for the tape after KCAL aired the copyrighted footage. Petrich Decl.Ex. A. Furthermore, they note that LA News has not submitted any admissible evidence that it lost subsequent sales because Defendants transmitted the footage to their subscribers. Finally, Defendants assert

that because the tapes are factual works, they do not have broad potential secondary markets that create a greater potential for commercial harm. *See Sony Corp.*, 464 U.S. at 455 n. 40, 104 S.Ct. at 795 n. 40.

LA News cannot prove loss of subsequent sales of the copyrighted works as a result of Defendants' actions, so it cannot show any actual adverse effect on the market for its videotape footage. However, allowing Defendants' infringing actions to go unpunished would result in a substantially adverse impact on the potential market for the original works. When a news reporting organization, like KCAL, uses LA News' footage, the use is unlikely to hurt the market for the footage. Other networks need the footage to report the story, and KCAL's use of the footage cannot lessen this need. Instead, it increases the need because it indicates that the viewing public finds the story compelling and important. As a result, competing networks will want to broadcast the story, not ignore it.

Organizations like Defendants satisfy the news organizations' need for the footage; the news organizations can buy the footage from them. When an organization buys the footage from Defendants, it does not need to purchase footage from LA News, thereby lessening the market for LA News' footage. Because Defendants' actions could result in a substantially adverse impact on the market for LA News' copyrighted footage, this factor weighs against them.

Only one of the four statutory factors for determining a fair use weighs in Defendants' favor, so the doctrine does not shield them from liability for copyright infringement. *See Los Angeles News,* 973 F.2d at 799 (finding that the doctrine of fair use did not shield a defendant from liability

when only one of the four statutory factors weighed in its favor).

D. Ability to Prove Actual Damages

Because the doctrine of fair use does not shield Defendants from liability, the Court must examine whether LA News is entitled to recover actual damages for the infringement.

1. Law Governing Availability of Damages

In a copyright action, a plaintiff may elect to recover actual damages or statutory damages. 17 U.S.C. § 504(c)(1). It can make this election "at any time before final judgment is rendered." Id.

"Actual damages are defined as 'the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement.'" *United States v. King Features Entertainment, Inc.,* 843 F.2d 394, 400 (9th Cir.1988). The copyright holder has the initial burden of "establish[ing] with reasonable probability the existence of a causal connection between the infringement and a loss of revenue. . . . " *Harper & Row Publishers,* 471 U.S. at 567, 105 S.Ct. at 2234. If it makes this showing, "the burden properly shifts to the infringer to show that this damage would have occurred had there been no taking of copyrighted expression." *Id.*

2. Application of Law Governing Actual Damages

LA News has not established with reasonable probability the existence of a causal connection between the

infringement and a loss of revenue because all of its "evidence" of this causal connection is inadmissible.[7]

Robert Tur's testimony that *USA Today* obtained a still photo from Reuters is inadmissible hearsay. He claims that a photo editor told him that *USA Today* obtained the still from Reuters. LA News is offering this statement to prove the truth of the matter asserted. Fed.R.Evid. 801(c).

The Court notes that Robert Tur's testimony that Robert Schnitzlein stated that Reuters was selling and distributing video footage or stills in America does not establish actual damages unless LA News shows that someone bought footage or stills from it.

LA News has failed to meet its burden of proving actual damages, so, at most, it is entitled to statutory damages.

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[7] LA News "evidence" of damages arising extraterritorially is irrelevant in light of the Court's holding that it has a cause of action under foreign law, not American law, to recover these damages. Nevertheless, the Court notes that the evidence of extraterritorial damages is inadmissible.

Phil Ramey's statement that he was unable to sell LA News' photos to European news agencies because they had already used video-grabs that they obtained from Reuters is inadmissible. LA News has not introduced evidence "sufficient to support a finding that [Ramey] has personal knowledge" that (1) these news agencies obtained video-grabs from Reuters and (2) they refused to buy footage from him because they had the video- grabs. Fed.R.Evid. 602.

Robert Tur's testimony that film makers from Canal Plus told him that they would not purchase "Beating of Reginald Denny" from him because they had obtained it from Reuters is hearsay.

IV. FEDERAL COMMUNICATIONS ACT CLAIM

LA News alleges that Defendants "intercepted and retransmitted a remote broadcast feed belonging to" it, violating the Federal Communications Act. Compl. ¶ 29. Defendants argue that they are entitled to summary judgment on this claim because they did not intercept anything. LA News does not mention this claim in its opposition.

Section 605(a)(2) of the Federal Communications Act provides that: "No person not authorized by the sender shall intercept any radio communication and divulge or publish its existence or contents to any person. . . . " 47 U.S.C. § 605(a).

Defendants have not violated section 605(a). First, this section outlaws satellite and radio signal piracy. *See Cablevision v. Sports Palace, Inc.,* No. 93-1737, 1994 WL 245584, at *3-4 (6th Cir. June 6, 1994) (construing legislative history and determining that Congress was concerned with satellite signal piracy). It is uncontroverted that Defendants initially obtained LA News' footage from a fiber link system. This system is a physical link, not a radio or satellite signal. Thus, they did not intercept a radio communication.

Second, their actions do not satisfy the definition of "interception." The plain meaning of intercept is to waylay or seize before arrival. *Id.* at *4. LA News has adduced no evidence that Defendants waylaid satellite or radio signals.

Instead, the Visnews office was the intended destination of the NBC transmission.[8]

Because Defendants did not intercept a satellite or radio signal, they did not violate section 605. *See California Satellite Sys. v. Seimon,* 767 F.2d 1364, 1366 (9th Cir.1985) (holding that failure to prove interception precludes a finding of liability under section 605 even if the defendant divulged a communication transmitted via a radio signal).

V. CONCLUSION

For the foregoing reasons, the Court **GRANTS** Defendants' Motion for Summary Judgment in part and **DENIES** it in part. It orders Defendants to submit a proposed judgment consistent with this order within ten days of receiving it. It also orders Defendants to review their pending motions in limine and to withdraw those that this order moots.

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[8] Even if Reuters copied LA News' footage from television broadcasts, it did not violate section 605. *See Cablevision,* 1994 WL 245584, at *4 (holding that videotaping a pay-per-view prize fight is not an interception).

17 U.S.C. § 504

§ 504. Remedies for infringement: Damages and profits

(a) In General. – Except as otherwise provided by this title, an infringer of copyright is liable for either –

(1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or

(2) statutory damages, as provided by subsection (c).

(b) Actual Damages and Profits. – The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

(c) Statutory Damages. –

(1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $750 or more than $30,000 as the court considers just. For the purposes of

this subsection, all the parts of a compilation or derivative work constitute one work.

(2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $150,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200. The court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section *107*, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the nonprofit activities of a public broadcasting entity (as defined in subsection (g) of section *118*) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

(d) Additional damages in certain cases. – In any case in which the court finds that a defendant proprietor of an establishment who claims as a defense that its activities were exempt under section *110(5)* did not have reasonable grounds to believe that its use of a copyrighted work was exempt under such section, the plaintiff shall be entitled to, in addition to any award of damages under this

section, an additional award of two times the amount of the license fee that the proprietor of the establishment concerned should have paid the plaintiff for such use during the preceding period of up to 3 years.

Supreme Court, U.S.
FILED
APR 5 - 2004
OFFICE OF THE CLERK

(2)

No. 03-965

IN THE

Supreme Court of the United States

LOS ANGELES NEWS SERVICE,
Petitioner,

v.

REUTERS TELEVISION INTERNATIONAL, LIMITED, ET AL.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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Rule 29.6 Corporate Disclosure Statement

Reuters Television International, Limited, Visnews International (USA), Limited, Reuters America Holdings Inc., and Reuters America LLC are subsidiaries of Reuters Group PLC, a publicly held company that owns 10% or more of their stock.

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BRIEF OF RESPONDENTS IN OPPOSITION

Petitioner rests its case for review almost exclusively on an asserted conflict between the decision below and that of the Second Circuit in *Update Art, Inc. v. Modiin Publishing Ltd.*, 843 F.2d 67 (2d Cir. 1988). There is no such conflict. *Update Art* does not even address the issue raised by petitioner, and in no way conflicts with the decision below. In fact, the opinion below is in full accord with the only Second Circuit decision actually on point, and expressly adopts the reasoning and holding of Judge Learned Hand's opinion in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939).

Furthermore, in the sixty-five years since *Sheldon* was decided, the unusual factual circumstances to which its rule is relevant have rarely recurred. The issue in this case arises infrequently and, when it does, generates no conflict among the courts of appeals. Certiorari should be denied.

STATEMENT OF THE CASE

A. Statutory Background.

1. The Copyright Act of 1976 ("Copyright Act" or the "Act"), 17 U.S.C. § 101 *et seq.*, protects creators against the unauthorized copying of their works for a set term, after which the works become a part of the public domain and may be freely copied. Like its predecessors, the Act provides legal protection only within the borders of the United States; it has no extraterritorial application. 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 17.02, at 17-19 (explaining territorial limitations of the Copyright Act and citing cases). That long-settled principle is not contested in this case.

2. The Act provides for monetary remedies in the event of infringement. Though all or some of those remedies are sometimes referred to loosely as "damages," they actually comprise three distinct forms of relief. First, § 504(b) of the Act permits a prevailing party to recover "actual damages" suffered as a result of an infringement – for example, the value of sales that were lost when a potential buyer purchased an infringing copy instead of the original work. 17 U.S.C. § 504(b) (reproduced at Pet. App. 101). Section 504(b) also allows for recovery of any of the infringer's profits attributable to the infringement. *Id.* Finally, a copyright owner may elect to forgo actual damages and profits and instead recover statutory damages. *Id.* § 504(c)(1) (reproduced at Pet. App. 101-02). Statutory damages are assessed in such amount "as the court considers just" within minimum and maximum limits set by the statute. *Id.*

3. The question of remedies does not even arise in cases in which a copyrighted work is infringed and the infringing copy exploited solely outside the borders of the United States. Because copyright law has no extraterritorial application, such cases are not actionable under the Copyright Act. 4 *Nimmer on Copyright* § 14.05, at 14-96. A different question is raised in the rare case in which an *infringement* occurs entirely within the United States and is then *exploited* for profit overseas. In the seminal case addressing this remedial problem, *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939), the Second Circuit held that a prevailing party could recover the infringer's profits under those circumstances, under a constructive trust theory. "[T]he copyright owner acquires an equitable interest [in the infringing work] as soon as it comes into being, and [] the work is thereafter impressed with a constructive trust so that the plaintiff is entitled to profits accruing from the exploitation of the work anywhere in the world." 4 *Nimmer on Copyright* § 14.05, at 14-96 (describing *Sheldon*).

B. Factual Background and Proceedings Below.

1. The video recordings ("the works") at the center of this copyright dispute are the property of the petitioner, Los Angeles News Service ("LANS"). LANS is an independent news organization that, for profit, produces and licenses audio and video tape recordings of newsworthy events. Petitioner copyrighted the works and sold a license to rebroadcast them to, *inter alia*, NBC, which used them as part of its *Today Show*. Pet. App. 3.

Pursuant to a news-supply agreement, NBC transmitted its broadcast of the *Today Show* to respondent Visnews International (USA), Ltd. ("Visnews"), in New York City. There, Visnews made a videotape copy of the works. Visnews then transmitted the works via satellite to its subscrib-

ers in Europe and Africa, and via fiber link to the New York office of the European Broadcast Union ("EBU"). *Id.*

The EBU then transmitted the works to Reuters Television International, Ltd. ("Reuters") in London. In London, Reuters made copies of the EBU transmission of the works. Reuters then transmitted the works to its European subscribers, who pay an annual fee to receive audiovisual and other news materials from Reuters. *Id.* at 3-4, 37.

2. Following Reuters' transmissions of the works in Europe, petitioner brought this action against respondents alleging, *inter alia*, violations of the Copyright Act. *Id.* at 4, 37. Respondents moved for, and were granted, partial summary judgment on grounds related to the extraterritorial application of the Copyright Act.

The district court ruled, first, that "no liability could arise under the Copyright Act for acts of infringement that occurred outside the United States." *Id.* at 4; *see id.* at 77. That holding excluded Reuters' conduct in making copies of the works in London and transmitting the works to European subscribers from liability under the Act. By contrast, Visnews' copying of the works in New York, *id.* at 3, as well as the EBU's subsequent copying in New York, *id.* at 38, 69, 70, 85, constituted domestic acts of infringement cognizable under the Act. But because petitioner could not show that any damages arose from that domestic infringement, rather than from extraterritorial exploitation of the infringement, it was limited to recovery of statutory damages. *Id.* at 4.

On appeal, the court below reversed the district court's broad extraterritoriality ruling. The court of appeals agreed that the Copyright Act does not apply extraterritorially. But it held that when an initial act of infringement is completed entirely within the United States – like Visnews' and the EBU's New York copying of the works – *profits* realized through overseas exploitation of that infringement may be

recovered. *Id.* at 5; *see id.* at 40-43. In support of its holding, the court relied expressly on Judge Learned Hand's opinion in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), reasoning that a constructive trust is created when the infringement is complete, so that profits derived from the infringing copy actually belong to the domestic copyright owner. Pet. App. 40.

After this Court denied certiorari, 525 U.S. 1141 (1999), the case returned to the district court, where respondents moved for summary adjudication of petitioner's damages claim. Petitioner sought to recover both profits realized and actual damages incurred overseas as a result of the initial domestic infringement. *Id.* at 5-6. The district court agreed with respondents that petitioner was entitled only to profits, and not also to overseas damages flowing from the domestic infringement. "To permit [LANS] to recover damages other than [respondents'] profits or unjust enrichment would . . . effectively permit [LANS] to recover damages for extraterritorial acts of infringement." *Id.* at 30; *see also id.* at 6. The district court concluded that respondents had not, in fact, reaped any overseas profits from their domestic infringement and instructed that petitioner could elect to take $60,000 in statutory damages in lieu of profits. *Id.* at 6, 34.

Petitioner appealed without making the required election between statutory damages and profits. Consequently, the court of appeals dismissed the appeal for lack of jurisdiction. *Id.* at 6. After curing the defect by making the required election, petitioner re-filed its appeal with the Ninth Circuit. *Id.*

3. Unanimously finding that it did not need to hear oral argument, the court below issued its opinion on the briefs. *Id.* at 1. Writing for the majority, Judge O'Scannlain affirmed the district court, agreeing with its holding that petitioner was entitled only to profits generated by exploitation

of the domestic infringement, and not to all overseas damages that could be linked back to that infringement. *Id.* at 13.

The court began by rejecting petitioner's argument that the prior court of appeals decision had authorized overseas damages awards beyond profits. Rather, Judge O'Scannlain concluded, the earlier panel had "relied on Judge Learned Hand's opinion in *Sheldon* and discussed damages entirely in the context of that case, which dealt exclusively with the recovery of the defendants' profits." *Id.* at 7.

The court below went on to confirm that the *Sheldon* rule – allowing recovery of profits derived from overseas exploitation of domestic infringement, and only of such profits – is the appropriate one. That rule, the court concluded, is consistent with the principles laid down by the Ninth Circuit's *en banc* decision in *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994), which "reaffirmed that the copyright laws have no application beyond the U.S. border." *Id.* at 11. "In particular, the *Sheldon* constructive trust rationale includes a territorial connection that preserves consistency with Congress's decision to keep the copyright laws – presumably including § 504, which prescribes remedies – territorially confined." *Id.* at 12 (citation omitted). The court of appeals rejected petitioner's reliance on *Update Art*, noting that the Second Circuit opinion "did not even discuss the distinction between damages and profits, much less cite *Sheldon*." *Id.* at 10.

Judge Silverman dissented on the ground that the majority had misconstrued the prior panel's opinion in this case. *Id.* at 14. On his reading, that panel's use of the term "actual damages" had decided the question and allowed recovery of actual damages as well as profits. *Id.* at 14. Accordingly, Judge Silverman would have remanded for a trial on actual damages. *Id.* at 15-16.

REASONS FOR DENYING THE WRIT

I. THERE IS NO CONFLICT BETWEEN THE DECISION BELOW AND ANY DECISION BY ANY OTHER COURT OF APPEALS.

A. The Decision Below Does Not Conflict With *Update Art.*

All of petitioner's arguments for certiorari rest on one central premise: that the decision below conflicts with the Second Circuit's decision in *Update Art v. Modiin Publishing, Ltd.*, 843 F.2d 67 (1988). That contention is incorrect. And once the purported conflict is removed from the equation, there is nothing left to support petitioner's argument for review.

1. The issue raised and decided below, and now before this Court, is whether the general prohibition on extraterritorial application of the Copyright Act necessarily limits remedies for domestic infringement to profits, as opposed to actual damages, incurred overseas. The *Update Art* court did not purport to, nor did it actually, decide that issue.

The central issue before the court in *Update Art* – and the only issue involving extraterritorial application of the Act – was whether the copyright claims brought in that case were cognizable as a *jurisdictional* matter. *Update Art*, 843 F.2d at 68, 72. The court held that there was jurisdiction: even infringing copies distributed abroad could be the predicate for jurisdiction when they were originally copied within the United States. *Id.* at 73. The court did not go beyond the jurisdictional question raised in the appeal to consider *sua sponte* the effect of the territoriality principle on available remedies.

The *Update Art* court did address damages, but only in the context of a long-running discovery dispute over the defendants' refusal to proffer evidence on the amount of profits

earned from its infringement. *Id.* at 70. The magistrate judge ultimately sanctioned the defendants for their bad-faith conduct and, because "neither [defendants'] precise profits nor their alleged deductible expenses could be determined from their limited production," accepted the plaintiff's calculation of damages. *Id.* On review, the Second Circuit sustained those sanctions and rejected the defendants' "belated" effort to introduce new evidence on the amount of damages. *Id.* at 72. In short, the damages award in *Update Art* was a result of sanctions imposed for discovery abuses, and appellate review of the award was limited to the legitimacy of those sanctions.[1]

The decision below is not in conflict with *Update Art*. Rather, the cases are fully compatible, agreeing on the answer to the only question they have in common – whether there is jurisdiction over claims where overseas damages, including profits, result from an initial infringing act that occurs within the United States. *See Update Art*, 843 F.2d at 73; Pet. App. at 5.

2. The *Update Art* decision can and must be interpreted in accord with the Second Circuit's earlier decision in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), which has never been overruled and therefore remains the law of the Second Circuit. Faced with the general rule that copyright laws do not apply to extraterritorial conduct,

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[1] In any event, it appears that the damages awarded did correspond to the profits earned from the infringement. *See Update Art*, 843 F.2d at 70 & n.3 (total award same as plaintiff's calculation of defendants' profits). The appellate court's reference to "damages *accruing from* the Israeli newspapers," *id.* at 73 (emphasis added), is to the same effect, suggesting that the remedy consisted of profits directly connected to the infringing copies circulated in Israeli newspapers. To the extent that the magistrate judge considered actual damages at all in the course of calculating total damages, it was because the defendants' recalcitrance had made it impossible to measure profits more precisely. *Id.* at 70.

Sheldon crafted a limited exception of sorts. In cases where a complete act of infringement – say, a copying of a videotape – occurs in the United States, Judge Hand explained, the copyright owner immediately becomes the beneficiary of a constructive trust on that work. Profits later earned from that infringing work – even if they are earned through overseas exploitation – thus belong to the copyright owner by virtue of a constructive trust *created within the United States* at the time of the infringement. *Sheldon*, 106 F.2d at 52. Thus, the *Sheldon* rationale attempts to forge a territorial link between the infringement and the remedy. *See* Pet. App. 12 (describing and adopting *Sheldon* rationale).

There is simply no indication, express or implied, that the *Update Art* court intended to or did disavow *Sheldon*. On the contrary, *Update Art* relies on the *Sheldon* "exception" in passing on the jurisdictional issues before it. 843 F.2d at 73 (noting exception to general rule that copyright laws do not have extraterritorial application when infringement completed within United States leads to exploitation abroad, and citing *Robert Stigwood Group Ltd. v. O'Reilly*, 530 F.2d 1096, 1100-01 (2d Cir. 1976), which in turn cites *Sheldon*). Nor would there be any justification for rejecting *Sheldon*'s limited rule, with its carefully crafted territorial link, in favor of petitioner's proposed rule, which would completely obliterate the principle that the Copyright Act has no extraterritorial reach. Certainly, no such justification was presented to or addressed by the Second Circuit in *Update Art*. Under those circumstances, there is no basis for reading into *Update Art* an implied rejection of settled circuit law.[2]

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[2] Petitioner also suggests that there is a conflict of some sort – though obviously not a conflict among courts of appeals, *cf.* Sup. Ct. R. 10(a) – between the decision below and *Famous Music Corp. v. Seeco Records*, 201 F. Supp. 560, a 1961 district court decision from the Southern District of New York. As the court below noted, the *Famous Music* decision only briefly mentions the extraterritoriality rule, and makes no reference

In short, the decision below creates no conflict with the Second Circuit. On the contrary, the court below deliberately and consciously assured consistency with the only other circuit that had previously decided the issue before it by expressly adopting both the holding and rationale of *Sheldon*. Pet. App. 12.

B. The Decision Below Does Not Conflict With Any Other Court of Appeals' Decision.

Petitioner briefly asserts that the decision below "inexplicably prevents [petitioner] from even recovering a reasonable royalty for respondents' unauthorized use of its footage" and that this result conflicts with decisions by the Second and Seventh Circuits. Pet. 18. That assertion is incorrect.

First, the decision below does not "prevent[]" recovery of "a reasonable royalty" as such. Petitioner does not provide a citation to the part of the opinion it has in mind here. And the decision below never even mentions royalties, much less addresses whether petitioner is entitled to a "reasonable" royalty – for the simple reason that petitioner never raised that particular issue below.

The decision below does, of course, hold that damages for extraterritorial conduct are limited to profits generated from a constructive trust placed on an infringing work when the infringement was completed in the United States. That holding implicitly precludes recovery of royalties – just as it precludes recovery of *any* damages other than profits. But as discussed above, a rule restricting petitioner to profits and not to other damages (including royalties) brings the Ninth

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to *Sheldon* at all. Pet. App. 10-11. In any event, the Southern District is clearly bound by *Sheldon* as circuit precedent, and any tension between *Famous Music* and *Sheldon* is a strictly intra-circuit affair with which the Second Circuit is fully equipped to deal.

Circuit into full agreement with the one other circuit to have issued an opinion on the subject.

The decisions regarding royalties cited by petitioner are entirely inapposite. *Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001), *Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992), and *Deltak v. Advanced Systems, Inc.*, 767 F.2d 357, 360-61 (7th Cir. 1985), *see* Pet. 18-19, all involve copyright disputes of an entirely domestic character. Not one involves conduct – infringing or otherwise – that occurred beyond the borders of the United States. By definition, there can be no conflict between cases involving the award of royalties as damages for *domestic* copyright infringement and the decision below, addressing the circumstances under which damages incurred *overseas* may be awarded under the Copyright Act.

II. NOTHING ABOUT THIS CASE WARRANTS CERTIORARI REVIEW.

Petitioner has advanced no valid reason for the Court to grant review in this case. The petition rests virtually exclusively on a fictitious conflict between the decision below and *Update Art*. Even petitioner's fall-back argument – that the case involves "an issue of extraordinary importance," Pet. 19 – is premised on the same supposed conflict. *See id.* (certiorari should be granted because of "*the conflict* regarding the availability of extraterritorial damages") (emphasis added).

Nor should this Court be swayed by the alarmist claims catalogued at the end of the petition. The *Sheldon* rule adopted by the court below has peacefully existed for sixty-five years in one of the two "copyright circuit[s]." Pet. 19. In all that time, it has caused little excitement – perhaps because it has been so rarely invoked. The issue has arisen – even tangentially – a mere handful of times in the Second Circuit, *see, e.g.*, *Robert Stigwood Group*, 530 F.2d at 1100-

01, and not once in any other circuit before this case recently arose in the Ninth.

Presumably, that is because the factual circumstances that give rise to the issue at hand so rarely occur. In order for the long-standing "profits only" rule to be implicated, there must be *both* an act of infringement that is completed within the United States, *and* an overseas exploitation of that infringement that generates actual damages abroad. If, for instance, Visnews or the EBU had privately transmitted the works to an affiliate in London who had made a video copy there instead of in New York, there would have been no act of infringement completed entirely in the United States, and hence no liability under the Copyright Act at all. *See* Pet. App. 4. And if, of course, Visnews and the EBU had transmitted the works only domestically, then there would be no extraterritoriality issue at all. It should not be surprising that occasions for application of the *Sheldon* rule have been few and far between.

Petitioner's broad charges and complaints stem not from the rarely invoked *Sheldon* rule – a pro-recovery exception to the general bar on awards of *any* damages incurred abroad in most cases of extraterritorial infringement – but from the territoriality requirement itself. And those complaints, of course, are properly addressed to Congress, not to this Court. As the Ninth Circuit noted in addressing a similar "parade of horribles" argument, it is "the United States Congress, in acceding to the Berne Convention, [that] has expressed the view that it is through increasing the protection afforded by *foreign* copyright laws that domestic industries that depend on copyright can best secure adequate protection." *Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 n.10 (9th Cir. 1994) (en banc).

This case involves a very specific question in the narrow subset of copyright law related to damages. The issue arises

only in the context of a highly unusual factual situation. And in the few instances in which it has arisen, the issue has proved entirely unexceptional, generating no controversy or conflict among the courts of appeals. There is no reason for this Court to review a narrow issue on which the circuit courts are in agreement.

CONCLUSION

The petition for a writ of certiorari should be denied.

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(3)

No. 03-965

Supreme Court, U.S.
FILED
APR 14 2004
OFFICE OF THE CLERK

In The
Supreme Court of the United States

LOS ANGELES NEWS SERVICE,

Petitioner,

v.

REUTERS TELEVISION INTERNATIONAL, LIMITED; VISNEWS INTERNATIONAL (USA), LIMITED; REUTERS AMERICA HOLDINGS, INC.; REUTERS AMERICA, INC.,

Respondents.

On A Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

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PETITIONER'S REPLY BRIEF

In the opinion below, the Ninth Circuit erroneously held that LANS is not entitled to recover actual damages flowing from the respondents' unauthorized exploitation abroad of copyrighted work they infringed in the United States. *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 340 F.3d 926 (9th Cir. 2003) ("*Reuters IV*," App. 1-16). There is no question that prior to *Reuters IV*, such damages were recoverable in both the Ninth and Second Circuits. *See Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 149 F.3d 987 (1998) ("*Reuters III*," App. at 35-55); *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988). *Reuters IV* therefore creates a critical conflict between the Ninth and Second Circuits and within the Ninth Circuit itself.

Anxious to manufacture consistency between the Ninth and Second Circuits with respect to this issue, respondents blatantly mischaracterize two Second Circuit opinions, *Update Art* and *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), and erroneously argue that those cases would also limit LANS' recovery to respondents' profits. Contrary to respondents' arguments, *Update Art* expressly confirms the availability of actual damages arising from the foreign exploitation of domestic infringements, and *Sheldon* does not address the issue at all, much less hold that such damages are not recoverable. Moreover, as discussed below, the contention that *Reuters IV* does not conflict with *Update Art* is contradicted by the position respondents took in their own Petition for a Writ of Certiorari to this Court following *Reuters III*. There is a plain conflict between *Reuters IV* and *Update Art*, and respondents' arguments to the contrary are incorrect and disingenuous.

Respondents also attempt to minimize the importance of the issue presented by mischaracterizing it as "a very specific question in the narrow subset of copyright law related to damages" (Brief of Respondents in Opposition ("Opp.") at 12), and by contending that "the issue in this case arises infrequently . . . ." Opp. at 2. *Reuters IV* does not just deprive LANS of a specific type of damages. Instead, it deprives all copyright holders of any meaningful protection from individuals or entities who would steal their works and transmit them abroad for further reproduction and exploitation. Modern technology has recently made such piracy easy, inexpensive and devastating to copyright holders, and LANS submits that it happens every day. Indeed, LANS' petition raises the single most important piracy issue of the new technology era, i.e., the domestic digital copying of copyrighted material that is then exploited throughout the world. The issue raised by LANS' petition truly requires resolution by this Court.

I. *REUTERS IV* CREATES A PLAIN CONFLICT BETWEEN THE NINTH AND SECOND CIRCUITS BECAUSE THE SECOND CIRCUIT PERMITS THE RECOVERY OF ACTUAL DAMAGES RESULTING FROM THE FOREIGN EXPLOITATION OF DOMESTIC COPYRIGHT INFRINGEMENTS

A. In *Update Art*, the Second Circuit Confirmed the Availability of Actual Damages Arising from the Foreign Exploitation of Domestic Infringements

Contrary to respondents' specious argument, the Second Circuit confirmed the availability of actual damages arising from the foreign exploitation of domestic

infringements in *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988). While the copyright damages in *Update Art* were awarded after the magistrate had granted summary judgment against the defendant as a discovery sanction, the Second Circuit discussed and affirmed the propriety of the court's award of actual damages arising from the exploitation *in Israel* of the plaintiff's works:

> As the applicability of American copyright laws over the Israeli newspapers depends on the occurrence of a predicate act in the United States, the geographic location of the illegal reproduction is crucial. If the illegal reproduction of the poster occurred in the United States and then was exported to Israel, the magistrate properly could include damages accruing from the Israeli newspapers. If, as appellants assert, this predicate act occurred in Israel, American copyright laws would have no application to the Israeli newspapers. Since a large portion of the damage award accrued from the Israeli newspapers, our determination on this issue affects substantially the final judgment.

Id. at 73.

Accordingly, the Second Circuit held that the predicate act of infringement in the United States permitted the plaintiff to recover all of its actual damages, even though "a large portion of the damage award accrued from the Israeli newspapers," *id.* at 73:

> The magistrate awarded Update damages of $475,406 plus interest by adding to Update's lost profits of $380,686 [i.e., Update's actual damages] that portion of appellants' income from the

> infringement that was not duplicative of Update's lost profits ($94,720).

Id. at 70. In other words, the court awarded the plaintiff its actual damages *plus* the portion of the defendants' profits that exceeded that amount. The Second Circuit concluded that such "[d]amages accruing from the illegal infringement in the Israeli newspapers properly were awarded to Update." *Id.* at 73.

Respondents' purposeful mischaracterization of *Update Art* is belied by their prior Petition for a Writ of Certiorari to this Court following *Reuters III*.[1] First, respondents argued that:

> The Second, and now the Ninth, Circuits would justify their extension of U.S. law extraterritorially to allegedly infringing foreign activities because an earlier "predicate act" (making a reproduction of plaintiff's work) occurred in the U.S. which "enabled" the allegedly foreign infringement.

Reuters' Cert. Pet. at 17.

Second, respondents also argued unsurprisingly that the source of the Second Circuit's "predicate act" theory was *Update Art*:

> The *Update Art* decision is the only source of the "predicate act" theory. [*Reuters III*] characterizes the *Update Art* decision as "permitting recovery

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[1] Repondents' November 20, 1998 Petition for a Writ of Certiorari in the Supreme Court of the United States ("Reuters' Cert. Pet."), Case No. 98-851, was denied on February 22, 1999. *Reuters Tel. Int'l, Ltd. v. Los Angeles News Service*, 525 U.S. 1141 (1999).

> of copyright *damages accruing abroad from illegal copying in the United States*." App. at 6-7 (emphasis added). But, *Update Art* was more candid; it expressly held that "*damages accruing from the illegal infringement in the Israeli newspapers* properly were awarded to *Update*." 843 F.2d at 73 (emphasis added). Thus, *Update* faced the fact that it was applying U.S. law to *allegedly infringing activities abroad*. *Update* sought to justify its judicially-created "exception" to the territoriality principle because the "predicate act in the United States, the geographical location of the [initial] illegal reproduction is crucial." *Ibid.*
>
> . . . .
>
> *Update's* "predicate act" exception finds no support in the statute or in the case law.

Id. at 21-22.

Respondents' new claim that *Update Art* "does not even address the issue raised by petitioner, and in no way conflicts with the decision below" (Opp. at 1), is therefore wrong and contradicts their earlier statements to this Court.[2] There is no question that the holdings of *Reuters IV* and *Update Art* are diametrically opposed and create a

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[2] Respondents' unqualified assertion that the Ninth Circuit "unanimously f[ound] that it did not need to hear oral argument" (Opp. at 5), is equally disingenuous. The Ninth Circuit dismissed as premature LANS' prior appeal of the district court's summary judgment ruling after full briefing and oral argument that took place on February 5, 2002. In LANS' subsequent appeal that resulted in *Reuters IV*, the parties merely resubmitted their prior briefs and the panel did not require a second hearing.

critical conflict between the Ninth and Second Circuits on this important issue. This case merits this Court's review.

B. *Sheldon v. Metro-Goldwyn Pictures Corp.* Does Not Limit a Copyright Holder's Recovery to an Infringer's Profits From the Overseas Exploitation of a Work Infringed in the United States

In addition to blatantly distorting the holding in *Update Art*, respondents also greatly exaggerate the holding of *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), in order to argue that *Sheldon* and *Reuters IV* are consistent. Respondents do so by erroneously claiming that *Sheldon* precludes a copyright holder from recovering actual damages flowing from the foreign exploitation of a domestically-infringed work. While *Sheldon* confirms that a copyright holder can recover a defendant's profits flowing from the foreign exploitation of a domestically-infringed work, it does not hold or even suggest that he or she is limited to a recovery of profits. *Sheldon* contains no discussion of actual damages and there is no indication that the plaintiff in *Sheldon* sought anything other than the defendant's profits. That is why Judge Silverman states in his dissent that "[i]n *Sheldon*, the question of what constitutes 'actual damages' wasn't an issue or even discussed. *Sheldon* was an appeal from an accounting. . . . 'Actual damages' had nothing to do with the case." App. at 15 (Silverman, J., dissenting).

Simply put, Respondents' (and the Ninth Circuit's) reliance on *Sheldon* is misplaced. *Sheldon* does not suggest in any way that LANS' recovery in this case is limited to respondents' profits.

II. *REUTERS IV* ALSO CONFLICTS WITH THE LAW OF THE SECOND AND SEVENTH CIRCUITS BY DENYING LANS A REASONABLE LICENSE FEE FOR RESPONDENTS' UNLAWFUL INFRINGEMENT OF ITS WORKS

Respondents do not explain at all how *Sheldon* or any other case would insulate them from liability for a reasonable license fee, or "the reasonable value of what [they] took." *Davis v. The Gap*, 246 F.3d 152, 161 (2d Cir. 2001). In the Second and Seventh Circuits, such damages are routinely recoverable as actual damages:

> If a copier of protected work, instead of obtaining permission and paying the fee, proceeds without permission and without compensating the owner, it seems entirely reasonable to conclude that the owner has suffered damages to the extent of the infringer's taking without paying what the owner was legally entitled to exact a fee for. We can see no reason why, as an abstract matter, the statutory term "actual damages" should not cover the owner's failure to obtain the market value of the fee the owner was entitled to charge for such use.

Id. at 165; *see also Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992) ("[W]e think that a reasonable license fee for the use of [the infringed work] best approximates the market injury sustained by [plaintiff] as a result of [defendant's] misappropriation."); *Deltak v. Advanced Systems, Inc.*, 767 F.2d 357, 360-61 (7th Cir. 1985) ("The value of the infringer's use is a permissible basis for estimating actual damages.").

In addition to foreclosing the recovery of LANS' lost profits, *Reuters IV* also inexplicably prevents LANS from recovering a reasonable royalty for respondents' unauthorized use of its footage. At a bare minimum, respondents'

liability should include a reasonable license fee for its unauthorized copying of LANS' works in the United States and the distribution of those works to its foreign subscribers. *Reuters IV*'s implicit rejection of this type of recovery conflicts with established law in the Second and Seventh Circuits and also merits review and reversal of *Reuters IV* by this Court.

III. THE AVAILABILITY OF EXTRATERRITORIAL DAMAGES ARISING FROM DOMESTIC INFRINGEMENTS INVOLVES AN ISSUE OF EXTRAORDINARY IMPORTANCE

Respondents attempt to minimize the importance of the issue of the availability of actual damages flowing from the foreign exploitation of domestically-infringed works by labeling it "a very specific question in the narrow subset of copyright law related to damages" (Opp. at 12), and by contending that "the issue in this case arises infrequently . . . ." Opp. at 2. Both assertions are wrong.

First, LANS' petition does not raise a narrow issue relating to damages, but a broad question of whether the Copyright Act affords copyright holders any meaningful protection from individuals or entities who would steal their works and transmit them abroad for further reproduction and exploitation. Recent advances in technology, including the development of digital reproduction and the Internet, have made such piracy easy and inexpensive. Regardless of its profitability to the domestic infringer, the transmission abroad of copyrighted works infringed in the United States can be devastating to a copyright holder. If actual damages are unavailable in such circumstances, infringers can and will continue to duplicate copyrighted works in the United States and distribute them worldwide for further reproduction without fear of any meaningful copyright liability.

Second, there is no question that some variation of the factual situation underlying LANS' petition is taking place right now. It is well-understood that films, music, software, and other media are routinely copied in the United States and sent abroad for further reproduction, where the unauthorized copies are sold and markets for the works are seriously diminished if not destroyed. For example:

- Just one day after its December 5, 2003 release in theaters, the film *The Last Samurai* was available for download on the Internet "from a camcorder copy made in a U.S. theater on the day the movie premiered . . . . On Dec. 13, a TIME reporter bought *Samurai* from a stall along Taweewong Road in Phuket, Thailand." Amanda Ripley, *Hollywood Robbery; How Does a Hit Movie Go From the Free Market to the Black Market? TIME Retraces the Trail*, Time Magazine, January 26, 2004, at 56.

- "DVD bootlegs of '*The Lord of the Rings: The Two Towers*,' copied from Oscar screeners [copies of films given to Academy Awards voters], sold for about $3 in a store in Beijing – months before any official DVD release of the film. Other pirated films . . . included '*Chicago*' and '*Gangs of New York*' . . . '*Die Another Day*'; and . . . '*Catch Me if You Can*.'" Bruce Orwall, *Piracy Prevention: Studios Halt DVD Giveaways*, The Wall Street Journal, October 1, 2003, at A3.

- "Bootleg copies of '*Harry Potter and the Sorcerer's Stone*' appeared in China's capital within days of the movie's U.S. [theatrical] release, the latest in a flood of pirated films to reach Asia." Meg James & Anthony Kuhn, *'Potter' Plundered in Asia Movies*, L.A. Times, December 3, 2001, at C1.

The parade of horribles in LANS' petition (Pet. at 20) is not a work of fantasy, but a description of what United

States copyright holders face on a daily basis in today's world. The Copyright Act provides protection from such acts by allowing a copyright holder "to recover the *actual damages* suffered by him or her as a result of the infringement . . . ." 17 U.S.C. § 504(b) (emphasis added). *Reuters IV* erroneously strips copyright holders of this protection and leaves them extremely vulnerable to international piracy that begins with a predicate act of infringement in the United States. This extraordinarily important issue merits this Court's review.

CONCLUSION

In light of *Reuters IV*'s misinterpretation of the Copyright Act, the serious conflict between the Ninth and Second Circuits and the extraordinary importance of this copyright issue, LANS' petition for a writ of certiorari should be granted.

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April 14, 2004